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These books may be ordered from The Magazine of Wall Street book department.

With The Editors

On Borrowing Trouble

As THE story goes: "Ah sho am tired of this job," said the sorrowing Negro lad.

"How long you been at it, boy?"

"Ah starts tomorrow."

Stockholders are deeply worried over the dividend outlook. That, of course, has happened before. They had scant hope, for example, in 1932. But never before has there been so much gloom *at a time when dividends were as good as they are today.*

Stocks and stockholders are depressed—but dividends thus far in our war economy are far above depression levels. Perhaps in the aggregate they will decline to some extent under the impact of coming higher corporate taxes. But if the stock market be taken at face value, investors certainly seem to be borrowing trouble in excessive quantity for a goodly time to come.

After all, it is quite possible that the future level of dividends will be at least substantially better than today's pessimistic consensus is allowing for. As reflected by many weeks of persistent odd-lot sales well in excess of purchases, the general public is downright bearish on the stock market. It *could* be right—but it never *has* been heretofore.

In October, for the seventh consecutive month, total dividend distributions, as compiled by the New York Times, showed an increase. The total, paid by 910 companies, was $281,023,000, compared with $270,877,000 in September and $229,781,000 in October, 1941. It was the largest October distribution since 1937.

For the first nine months of this year the weighted average annual dividend rate on 600 common stocks, as compiled by Moody's Investors Service, averaged $1.93. This was 26 per cent higher than the average of the years 1938-1939 and more than 3 per cent above the average of 1936-1937. It was only some 9 per cent under the average of 1937.

Otherwise expressed, dividends on these 600 stocks are now some 30 per cent above the average of 1938, while stock prices, as measured by this publication's broad weekly index, are quite close to the lowest level of 1938 and approximately 20 per cent under the average level of that depression year.

Dividends are the most realistic measure of the stockholder's well being. And in terms of cash dividends actually being received he is not nearly as much "The Forgotten Man" as some allege him to be—at least not yet.

★ ★ IN THE NEXT ISSUE ★ ★

Your Dollars — Good or Bad?

Tomorrow's Bill for Today's War

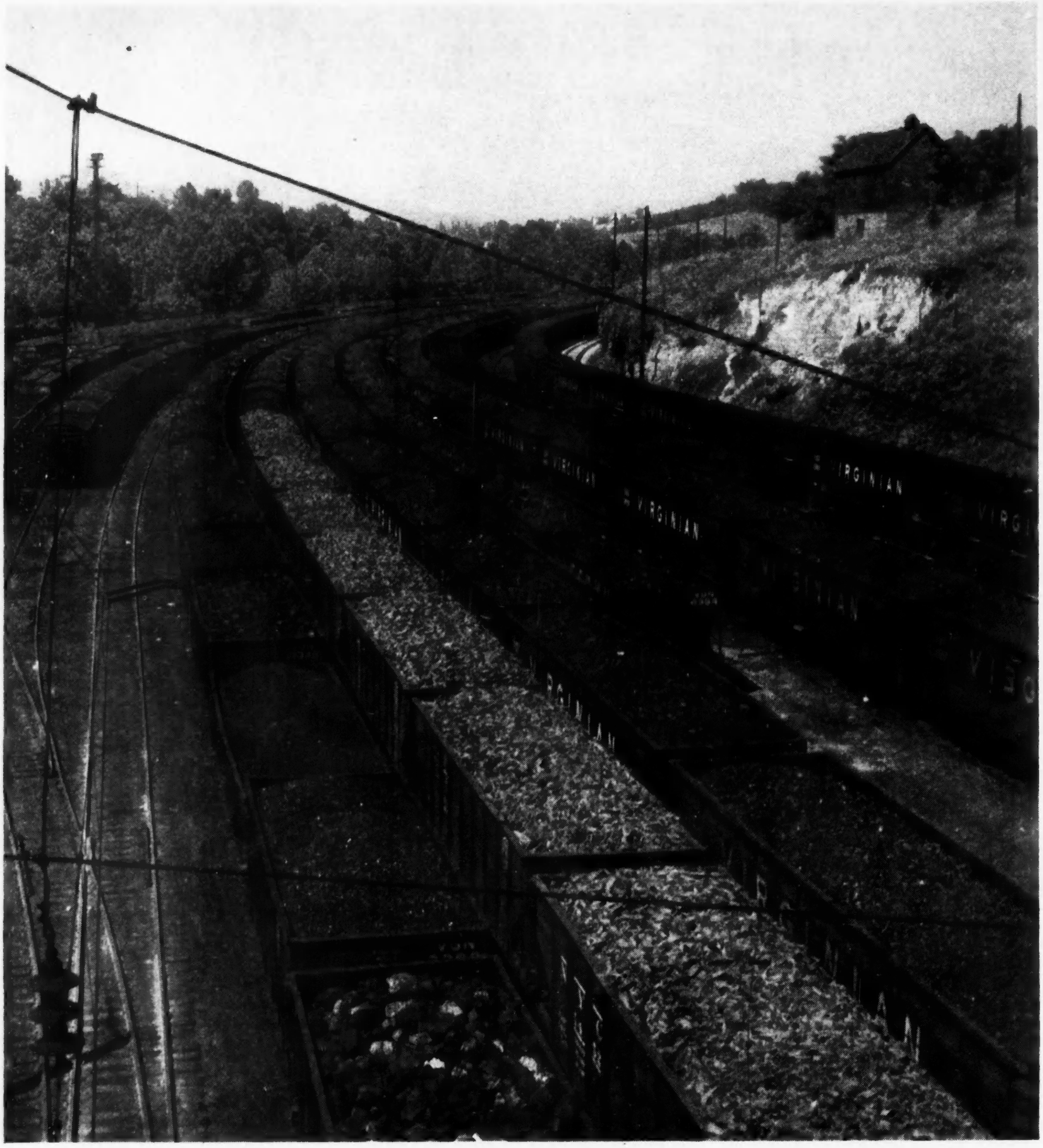
BY LAURENCE STERN

Safeguarding Against Dividend Casualties

By THE MAGAZINE OF WALL STREET Staff

A Balanced Investment Program for Maximum Safety

BY J. S. WILLIAMS

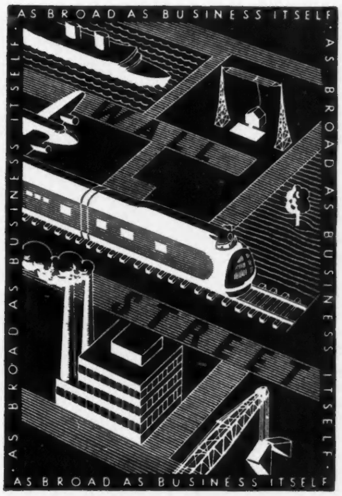


Sawders from Charles Phelps Cushing

Not for nothing is coal called "black gold." Unless coal moves, defense production halts. And the question of keeping coal moving has brought the long inevitable show-down between the New Deal and the labor leaders who had fattened so greatly on its favors. For an informed view and forecast on this situation, see page 180.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

BRITAIN STRIKES . . . The timing of Britain's offensive in Libya was no doubt hastened by public clamor for action, by the need of at least a gesture of diversion relief for hard-pressed Russia and by Vichy's continuing drift under more and more complete Axis domination. However, it was preceded by many months of intensive preparation; and its initial successes—while by no means conclusive—provide a tentative basis for hope that the British for the first time are on their way to a major victory over German forces in a land campaign.

The stakes are high and the risks for Britain are great, because she has more to lose in this campaign than has Germany. The initiative taken by the British is local and essentially defensive—the objective being to push the Nazi-Italian threat as far westward from Egypt as possible and to knock Italy out of the war. But even if maximum success is attained, its direct influence on the Russo-German campaign would be relatively small and the formidable job of crushing Germany on the Continent would still confront us.

Either a British failure or a limited triumph—especially if it proved dear in men and materials—would be most costly to the morale of all who are opposing Hitler and might make the over-all Allied position in the Mediterranean and mid-East more, rather than less, vulnerable. Hitler has considerable leeway for choice of counter-moves, both east and west. In the east he may move through the Caucasus or Turkey or both, aiming at Iran, Iraq, Syria, Palestine and Suez. In the west he may (1) take over the French African and Mediterranean positions and bases; and/or (2) invade Spain and Portugal and lay siege to Gibralter.

On the other hand, it is apparent that Germany also is increasingly on the defensive. That is, her chances of winning a total war victory—which would require triumph over the Allies in the all-important Battle of the Atlantic—are steadily growing dimmer. If she can not knife the heart of the British Empire—which is England—her only alternative is to strive to prevent her own defeat on the Continent. If she can organize the potential production of European Russia and the mid-East, her ultimate defensive—and offensive—power will be greatly increased. If she can ultimately squeeze Britain out of the Mediterranean and north Africa, it is hard to foresee how she could be beaten. Even so, with England and the United States steadily growing stronger, Nazi opportunities for Atlantic and trans-Atlantic expansion will be more and more limited and uninviting—turning Nazi dreams of conquest eastward to Asia, including India.

Business, Financial *and* Investment Counselors · 1907—*"Over Thirty-Four Years of Service"*—1941

There are certainly many months—and more likely years—of bitter struggle ahead.

WRONG JOHN LEWIS . . . The issue between John L. Lewis and the President of the United States is not whether a few thousand coal miners are to be driven into a closed shop C.I.O. union. That question has merely provided opportunity for an "all or nothing" show-down on which Lewis long has been calculating.

This man is a discredited labor leader who guessed wrong on the last Presidential election and was thus committed to carry out his previous promise to resign his leadership of the C.I.O. He bitterly hates Roosevelt. He opposes Roosevelt's war policy. He is seeking a come-back as a labor leader and as a public figure. If there are any limits to his ambition for personal power and prestige, they are not of record.

The United States is at war, even though undeclared—just as truly at war as are China and Japan, though that war also is undeclared. As we see it, the rule or ruin effort of Wrong John Lewis was scarcely short of treason or revolt.

Yet as this is written the situation has taken a turn which defies prophesy. Lewis has accepted "arbitration"—but only after the President informed him in advance who the arbitrators would be. They are Lewis; Benjamin F. Fairless, head of United States Steel; and Dr. John R. Steelman, director of the U. S. Conciliation Service, whose mediation efforts some time ago resulted in acceptance of the closed shop by virtually all commercial coal operators. Dr. Steelman has temporarily resigned his Government post to act as "impartial" arbitrator. Obviously he will make the decision. If he decides as Lewis wishes, it will be impossible to escape the conclusion that the Administration has again surrendered to the pressure of organized labor through an adroit face-saving scheme. The technique smacks of Gilbert and Sullivan. The President had said that the Government would not force the closed shop on any minority and the Mediation Board had followed the same line of reasoning. Now we have an "arbitration board" whose controlling member is "temporarily disassociated" from the Government. Only if Dr. Steelman decides against Lewis will the President's action command public confidence.

FINANCING DEFENSE . . . The longer a realistic method of financing the defense program is delayed, the more drastic must be the ultimate expedients adopted. Such is the clear implication of the Treasury Department's failure to follow through at least with its original intention to finance two-thirds of defense outlays by taxes and one-third by borrowing. At the rate arms expenditures are increasing, it is evident that tax receipts under present tax laws will fall far short of the two-thirds ratio. The Treasury's financial requirements must be met somehow, and, to avoid a dangerous inflation of bank deposits through sale of government obligations primarily to banks, the general public must be convinced of the necessity for contributing more generously by taxes and by purchases of defense savings bonds in greater volume. Once the public is convinced that the funds must be raised by such means, appropriate tax legislation can readily be adopted by members of Congress whose willingness to approve needed upward tax revision is reputed to be weakened by fear of public disapproval at the polls next year.

A realistic method of financing the defense program must be coupled with measures designed to fix wage-cost ceilings as a major preventive of too rapid increases in commodity prices. While the conversion of American productive effort to defense requirements will sharply curtail the output of durable consumers' goods, fortunately there will be no shortages of essentials. Moreover, the curtailment in output of durable consumers goods should result in no serious hardship to the general public, unless protracted indefinitely, because of the heavy purchases of such goods made during the last two years. However, unless wage-cost ceilings are adopted, there will be increasing pressure towards a higher dollar national income, higher prices, and a higher cost of living.

National income payments are approaching $100 billion a year, or 25 per cent more than for 1929, and will be higher next year. The public will not seriously feel the reduction in output of durable consumers goods for some time. On the other hand, the average person in the lower and intermediate income groups has a habit of spending most of what is earned. To counteract this tendency, and to limit price advances, a greater proportion of arms outlays must be paid by higher taxes levied on all classes, while a system for compulsory savings is a desirable supplement.

WHAT'S THIS? . . . Following a strike, the United States Army several weeks ago took over operation of the Bendix, N. J., plant of Air Associates, Inc. The management was accused by the strikers of failing to carry out fully and in good faith a decision of the Federal Mediation Board. On this the War Department apparently agreed with the strikers.

The Army notified the directors that it would not return the plant to private operation unless they discharged the president of the company, a vice-president and the company's counsel. Having no practical alternative, they complied. The Army explains that it is only interested in assuring selection of individual officers from whom it *thinks* it can expect uninterrupted production.

Presumably the company's directors *thought* they could expect contiuing production from these challenged officers. What it amounts to it that the Army in this case has substituted its judgment for that of a private directorate. If it has any specific authority of law to do so, we would like to have it cited to us and the public. Secondly, we would like to know how it is that the Army can in short order crack down on company managers who are *accused* of not *whole-heartedly* carrying out a decision of the Mediation Board but is powerless to deal with labor leaders who have *openly and completely* flouted decisions of the same Federal agency. Apparently, what we have is simply a double standard.

The Wisest Stock Market Policy Now

We believe that the market has now virtually completed a resistance base from which rally or recovery will develop before long. Accordingly we recommend selective purchases in any periods of near-term recession.

BY A. T. MILLER

Summary of the Fortnight: Tax selling seemed to pass its peak of intensity and the market as a whole showed dogged resistance to scattered selling. Our index of 290 issues receded only 8/10 of 1 point for the period. Instances of selective demand became more numerous.

RECENT movement of the averages has become glacier-like in its slowness. Since the market has long been on the defensive, the only technical inference that can be drawn is that the power of the downward offensive has waned greatly and may be petering out. In five weeks largely barren of really encouraging news developments, our broad weekly index has given up only 1.2 points. Tax-selling, and the obvious tendency to defer re-investment of funds thus made liquid, would be enough in itself to account for this minor retreat.

Evidence that pressure of tax sales is waning is to be found in last week's tendency toward lower volume and in the steadiness of various issues that had been under special pressure of this type, such as Consolidated Edison, North American and New York Central, to name but three.

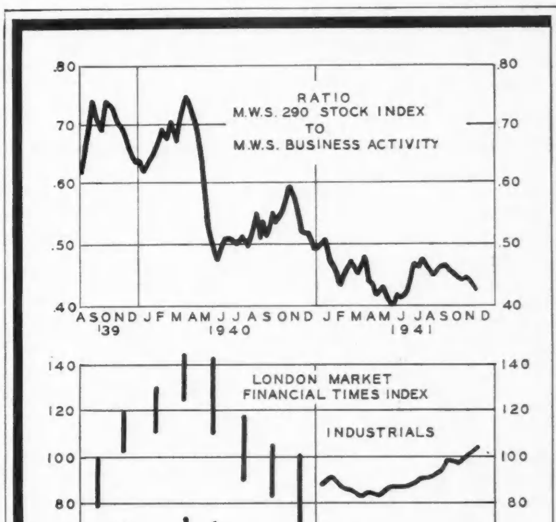
The intermediate decline from the average highs of last July has now lasted nearly four months; and every conceivable adversity that one could think of is pretty much in the open and substantially, if not completely, discounted. Huge amounts of idle capital await re-investment and there has seldom been a time when the discrepancy beween high yields on common stocks and low yields on first class bonds was so great. In such a setting, the odds are that the market will come through with the most consistent of all seasonal patterns: some degree of improvement before the year-end. Either steadiness or mild betterment over the near future would increasingly induce re-investment of tax-sale funds.

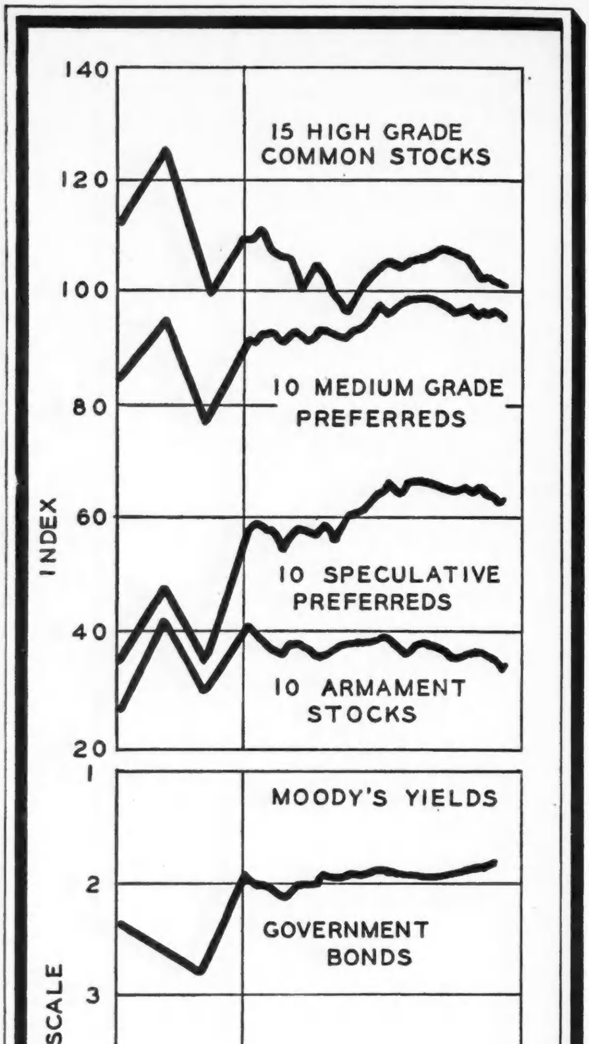
Definitely on the encouraging side, and more so than in many weeks, are scattered instances of selective advance in reflection of favorable earnings reports or unexpectedly liberal dividend declarations. A good earnings statement enabled Montgomery Ward, for instance, to recover easily market losses of the previous several weeks. A year-end dividend lifted Mack Truck to a new high for the year; while both Chesapeake & Ohio and Libby-Owens-Ford advanced by more than their year-end distributions.

Yet in unusual degree, it is still a market of stocks. Illustrating this point, even within our average of 15 high grade equities the individual variations are so striking as to reduce the significance of the composite movement considerably for the present. For instance, over the past five weeks—or since the mid-October low of the general market was made, this average has declined from 102.13 to 100.30 or by 1.83 points. But this was accounted for chiefly by a decline of 10½ points in American Can and of 16⅝ points in Liggett & Myers "B."

Over the same period there were net gains in du Pont, American Chicle, Eastman Kodak, Norfolk & Western, Coca Cola; while American Telephone, General Foods, Procter & Gamble, Sears, Roebuck and Sterling Products recorded relatively small losses; and General Mills, International Business Machines and United Fruit were virtually unchanged.

Illustrating cumulative decrease in effective liquidating pressure, even in the usually volatile Dow-Jones industrial "average" the net loss from the mid-October





low, at this writing, is less than 1½ points. Over this period of generally gloomy sentiment, a large number of issues have either shown some net gain or no additional reaction whatever. They include, to name but part of the list:

Allied Chemical, Allied Mills, American Agricultural Chemical, American Car & Foundry, American Chain & Cable, American Crystal Sugar, American Smelting, American Steel Foundry, American Vicose, Anaconda, Atchison, Atlantic Coast Line, Atlantic Refining, Baldwin Locomotive, Barnsdall, Beatrice Creamery, Boeing, Bohn Aluminum, Borden, Borg-Warner, Bullard, Bulova Watch, J. I. Case, Celanese, Chicago Pneumatic Tool, Food Machinery, Goodrich, Hercules Motor, Hercules Powder, International Paper, International Mercantile Marine, Island Creek Coal, American Airlines, Kennecott Copper, Link Belt, Lockheed, Loew's, Mack Truck, Mesta Machine.

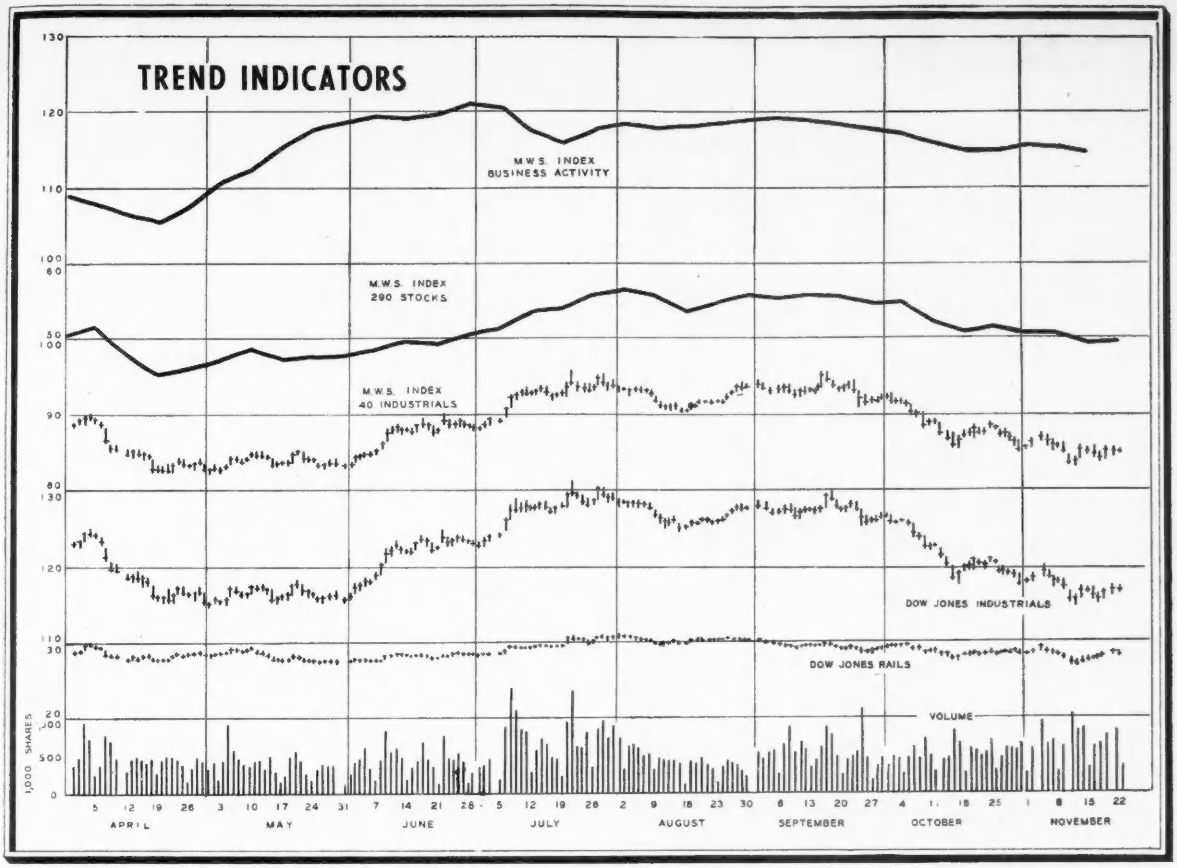
Also, Mid-Continent Petroleum, Monsanto Chemical, du Pont, G. C. Murphy, National Acme, National Oil Products, National Distillers, New York Shipbuilding, Oliver Farm Equipment, Paramount, Phillips Petroleum, Pure Oil, Remington Rand, Republic Steel, Allegheny Ludlum Steel, Ruberoid, Savage Arms, Schenley, South Porto Rico Sugar, Square D, Spicer Manufacturing, the Standard Oils of New Jersey, California and Indiana, Sun Oil, Swift & Co., Texas, U. S. Rubber and U. S. Steel.

Obviously, in these and many other individual issues, demand has either equalled or exceeded supply; and technical action can only be considered good. The same goes for a number of preferred stocks, including American Car & Foundry, American Locomotive, American Woolen, the American & Foreign Power issues, Erie preferred "when issued," Southern Railway preferred, General Outdoor Advertising "A", Minneapolis Moline, the National Supply issues and the Pere Marquette preferreds.

The current issue of *The Exchange,* monthly publication of the New York Stock Exchange, compiles a group of 269 common stocks which have paid uninterrupted dividends for ten years or more, and which as of mid-November were priced on a composite yield basis of 6.9 per cent. Fifty-two of these issues yield between 6 and 7 per cent; 27 between 7 and 8 per cent; 35 between 8 and 9 per cent; 21 between 9 and 10 per cent; 19 between 10 and 11 per cent; 10 between 11 and 12 per cent; 19 more than 12 per cent.

Of course, some of these individually higher yields must be regarded with skepticism; for under impact of coming higher taxes no doubt quite a few dividends will have to be reduced. But in a large number of instances the current annual dividend distribution could be cut in half and still the yield would be much larger than is available from other types of investment. On this point and others, *The Exchange* observes:

"Meanwhile, in what situation does the person with surplus funds to invest find himself? He sees equities standing as almost the sole remaining channel of investment that offers anything like the old-time rate of return. Government bonds (except small-denomination defense bonds) yield him less than 2 per cent; savings bank deposits from 1½ per cent to 2 per cent; municipal bonds barely 2 per cent; and first grade corporate in-



dustrial bonds from 2.4 to about 2.8 per cent.

"Selected listed stocks offer him the opportunity to more than double this income at a time when advancin living costs and higher personal taxes make such an increment more necessary than in some time past.

"The risks inherent in owning common stocks? Some observers are of the opinion that adjustment to war conditions has gone so far that business in the United States is becoming more immune to shock. On a number of occasions recently, they pointed out, disquieting war news has caused scarcely a flutter in share prices. It is noteworthy that despite the many startling developments in the war and in the domestic economy, the Dow-Jones industrial average has moved within a range of only 23 points during the last year."

We quote this here because its point of view coincides with our own. The only difference is that our responsibility requires us to take a more specific position in advising investors what to do. So let us repeat the essence of the positive stand previously taken in these columns:

We think we are seeing a final phase of intermediate reaction. We do not pretend to be able to guess the exact bottom in terms of the Dow-Jones averages or any other. We concede that the average might possibly dip to or even slightly under the lows of last spring—although we doubt it—but that would be a relatively small percentage move from present levels and we would still regard it as a culmination rather than a beginning of more serious decline.

In short, we are confident of the solidity of the band of resistance between last week's closing level of 49.6 in our broad weekly index and the series of lows all the way back to the start of 1934 which range between 46 and 44. We therefore stick to our view that on reactions down into this strata of resistance, we would rather buy stocks than sell. It may be that patience will be required and that the year-end improvement may not amount to more than another rally—but, whenever it develops, the potentiality of movement, in our opinion, is much greater on the up side than the down. Meanwhile, investors—conservative or speculative—have the advantage of usually good yields—and of a situation in which the risk factors have been so greatly emphasized in the psychological adjustment that they very likely are actually much smaller than they seem. The great majority of investors and speculators were examining the risks with eagle eyes at the depressed market levels of 1934 and early 1938; while most of the same people could only see the bright side at high market levels late in 1936 and early in 1937.

When the turn comes, as it will in due time, war developments or happenings at Washington may serve as excuses for action, but the real coming change will be on the psychological side. It's not so much the news, but how one looks at it. We think the dark side has had about all the consideration it is due.

Conclusion: As was the case last spring, the market is tediously establishing a base from which the odds are greatly in favor of either rally or recovery. Selective purchases are favored.—Monday, November 24.

LABOR . . .

PUBLIC ISSUE NO. 1

WHAT SHOULD BE DONE

BY H. F. TRAVIS

The labor problem, over which public opinion is now so deeply disturbed, did not begin with the coal strike or the threatened strike on the railroads. Nor will it be ended when these immediate and individual issues are settled, as they will be, by compromise or Government pressure.

It would be unfortunate if the emotional heat generated by these two particular disputes should lead to hasty, ill-considered "anti-strike" legislation. In the final analysis, men cannot be forced to work in a democracy; and in this country we do not want labor—or any other group—subject to the whip of an all-powerful State. If that were the answer, our tremendous effort to bring about the extinction of Hitlerism in Europe would be a travesty.

On the other hand, it would be equally unfortunate if the near term settlement of these individual conflicts should induce the Administration and Congress again to relegate the labor problem as a whole to the background. The problem is real, continuing and vitally important. If the Government continues to muddle and temporize with it, the difficulties and interferences with defense will multiply.

As I see it, the various aspects of the labor problem fall into three broad classifications:

(1) The internal set-up and administration of labor unions.

(2) The monopolistic union restraints upon commerce.

(3) The question of strikes.

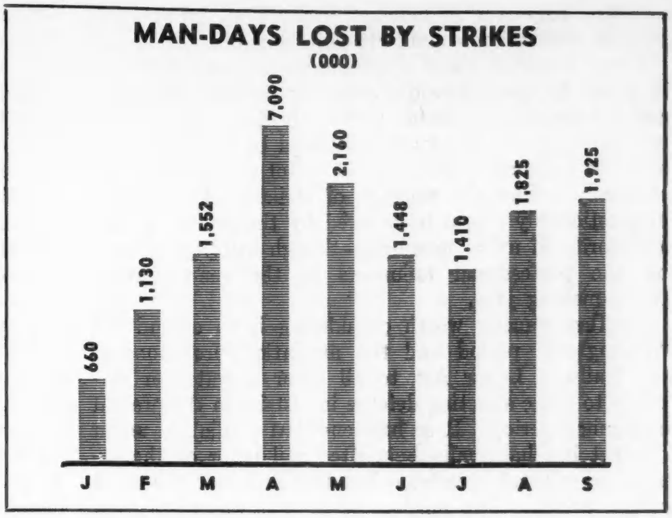
There is, of course, an overlapping relationship. The development of fair, proper and workable restrictions as regards (1) and (2) would, obviously, make (3) a less prevalent abuse and one easier to deal with.

Now, to begin with, organized labor is a big business—much bigger than most people imagine. Obviously, its powers and conduct affect the public interest just as definitely as do those of political parties or of great corporations. Yet the majority of unions function as private and autocratic clubs and there is no law to make them function otherwise.

It is a fact—itself scarcely short of scandalous—that

Triangle Photo

there is no official information even as to the total amount of money the unions handle. The most conservative estimate I have heard is around $500,000,000 a year from dues, initiation fees, assessments, etc. Westbrook Pegler, the newspaper columnist who has done more than anyone else in or out of public office to focus public attention on union abuses, estimates the total "take" at closer to $1,000,000,000 a year. Some unions make annual, audited financial reports—but the majority do not. It is probable that from two-thirds to three-quarters of the revenue is not publicly accounted for.



Right here we see the opportunity and reason for one class of union abuses. Whatever estimate of total revenues you accept, hundreds of millions of dollars a year are available to ambitious men who do not have to account for it. Naturally, this lure attracts racketeers like a sugar bowl attracts flies. It is why in some instances criminals have moved in and taken over various locals, especially in the A.F.L. It is a temptation to thievery on the part of duly elected officials. It is the dollars and cents urge that leads to undemocratic union administration, the rigged elections which perpetuate a given set of officers in power, the legal extortion of excessive salaries and expense accounts.

Surely, there is no valid reason why the managements of organized labor should not be subjected to the same financial accountability and publicity that is required of the managements of corporations and of our political parties.

The first thing, then, is legislation to clean up the internal administration of labor unions—establishing responsibility and obligation not only to safeguard the public interest but also to protect the freedoms and interests of the millions of rank-and-file members, a majority of whom have little or no real voice in what is done in their name.

Here are some of the internal reforms most badly needed:

Annual elections of union officials should be required by law, with a secret ballot and with a criminal penalty attaching to any "manipulation" of the voting or intimidation of the voters.

Regular financial reports should be required by law in prescribed form, sworn to by union presidents and treasurers, accompanied by independent outside audits; and any misrepresentation should carry criminal penalty.

In addition to periodic financial statement, every labor union should be required to file at least annually with a Government agency a report containing the following information: Names and addresses of all officers, their terms of office and their compensation; the scale of dues, initiation fees, fines and assessments; the constitution and bylaws and any other material needed to assure a proper and responsible relationship between the unions on the one hand, and their members and the public on the other hand.

If it be accepted that unions and employers have a right to establish a closed shop by agreement—which means in effect that the union leadership controls the "right to work" not only of non-members but also of members—then surely such an autocratic set-up should be surrounded by minimum safeguards. It should be required that opportunities for work be distributed equitably among the members.

Finally, strikes which affect interstate commerce—and nearly all do—should be illegal both by union constitutions and Federal law, unless authorized by majority vote of the members through secret ballot, with the voting machinery either supervised by Federal agency or otherwise subject to democratic safeguard against abuse. And, of course, in all matters of internal union administration and in the conduct of strikes, the resort to misrepresentation, intimidation or coercion should be outlawed for union management precisely as the Wagner Act has outlawed such conduct for employers.

If these reforms were adopted by Congress, they would go a long way toward solving the labor problem, ending the shameful abuses, establishing a sense of public responsibility and obligation among the labor leaders.

And now let's take a brief look at another kind of labor abuse—monopolistic trade restraints which in some instances amount to nothing less than legalized extortion. As interpreted by the United States Supreme Court, the anti-trust laws now on the statute books do not apply to labor. Yet the fact is that labor unions can, and in some instances do, engage in practices which are just as contrary to public interest as any of the monopolistic practices for which employers can be, and are, prosecuted.

This is well known to the anti-trust division of the Department of Justice, and monopolistic trade restraints are especially common among the building crafts of the A.F.L. and the teamster unions. The remedy here is very simple: amendment of the anti-trust laws, declaring the intent of Congress that they are henceforth applicable to labor unions.

So far as strikes are concerned—even in defense industries—there is no single, fool-proof preventive, compatible with democratic processes. If defense strikes are declared automatically illegal, making work compulsory for the employee—that, in principle, would simply be forced labor in the German style. It is wholly undesirable in principle, and in practice it could not be

expected to result in efficient production. And compulsory arbitration is similarly objectionable.

Nevertheless, without violating democratic concepts, it would be quite possible to apply partial correctives and safeguards. As stated previously, the legal requirement that strikes must be authorized by majority vote of union members through secret ballot would itself substantially reduce the number of strikes. This reform unquestionably would be favored by the public and by a majority of union members—though bitterly opposed by the professional unioneers in the remunerative, policy-making jobs.

Another remedy worth considering is to extend the "cooling off" period and the mediation provisions of the Railway Labor Act to all labor disputes or certainly to those affecting defense industries in the present emergency period. It so happens that mediation under this act has habitually benefitted rail labor at the expense of railroad investors—but that is beside the point of this article. The purpose of the act was to prevent stoppages of rail service by strikes—and from its inception it has succeeded in this purpose.

It is true, and regrettable, that in the present dispute the rail unions refused to accept the recommendations of the fact-finding board appointed by the President and are using the threat of strike—set for December 7—in an attempt to force a "compromise" wage increase larger than the impartial and fair-minded Presidential board proposed. It is clear that the Administration's soft-hearted, soft-headed and one-sided labor policy over a period of years is largely responsible for these excessive demands and for the general "toughness" of the rail unions, along with all other powerful labor organizations. But when all is said and done, there probably is not one chance in a hundred that the December 7 strike actually will eventuate. In other words, under its most severe test, the Railway Labor Act probably will again serve its primary purpose of preventing a tie-up of rail transportation.

Finally, both the Wagner Labor Act and the Norris-La Guardia anti-injunction law should be modified. The Wagner Act violated a cardinal principle of effective democratic government. It provided legal benefits and privileges for a particular group of people—organized labor—without imposing reciprocal responsibilities and obligations. In that respect (*Please turn to page 224*)

WHAT CONGRESS IS LIKELY TO DO

BY E. K. T.

Congress will enact anti-strike legislation as a symbol of pious hope rather than a mace with which to flail the nation's millions to work each shift.

Extremists will have little to do with writing the bill. Neither the handful of rancid Republicans who hate labor organizers because Roosevelt likes them nor the deep South anti-labor Democrats will dictate the final shape of the law. They have forced a show-down and at that point their effectiveness ends. The bill won't satisfy them, but they will support it on the theory half a loaf is better than none.

Ultimately the bill won't be especially hard on workers themselves. Probably it will carry no criminal penalty. It will doubtless impose a cooling off period, withdraw labor reform benefits from workers participating in jurisdictional or closed shop disputes, will certainly call for mediation and arbitration, and may broaden the President's power to seize plants and mines.

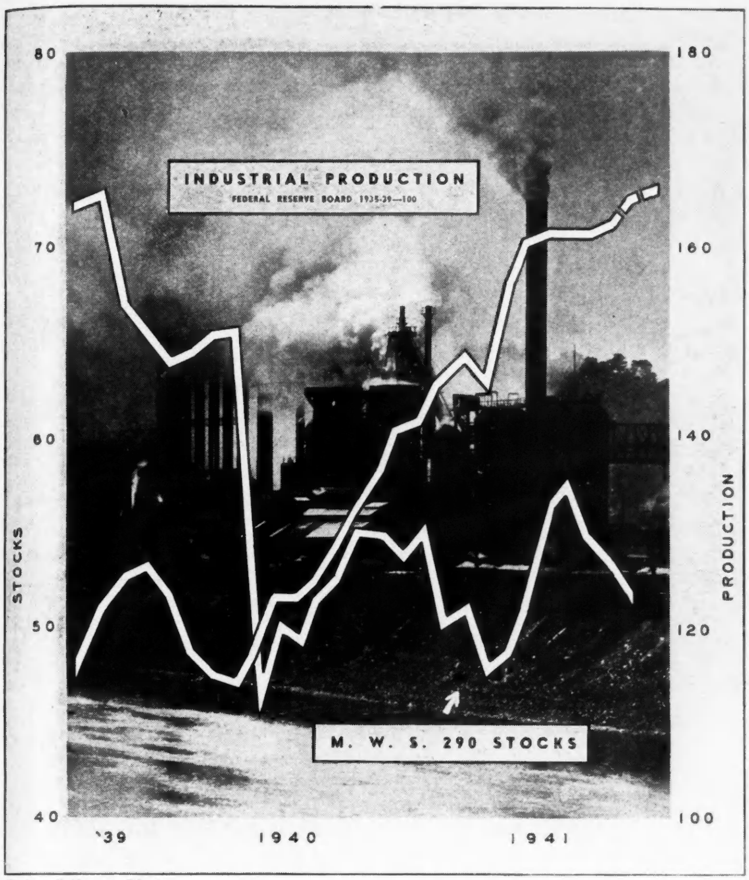
Congress for the most part realizes no single law in itself can end defense industry strikes. After years of blindness the bulk of national legislators have come to comprehend that President Roosevelt has been distorting organized labor into a sort of political hierarchy responsive only to himself, independent of the whims of Congress. And now that John L. Lewis has finally challenged his presidential godfather, the law makers find themselves with full knowledge this new faction in American life can't be legislated into good behavior over night, senses rather that the workers must be weaned away from the truculent leaders who have been using the defense program and workingmen as a spring-board for their personal ambitions.

This realization will be the guidepost of Congress in shaping the new law. Legislators will act with more hope than faith—hope that workingmen and women will heed the statute as an expression of public opinion and will be governed accordingly. The law will be intended to bind obstreperous leaders in a straitjacket of public opinion rather than intimidate the men who carry lunch pails and swing picks and shovels.

Congress has come reluctantly to believe it is powerless to keep men at work. It can broaden the President's power to seize and operate facilities. It can prohibit use of force in barring workers from strike-bound plants. But it can't make men work. It well knows any anti-strike law will fail in its objectives, just as did the prohibition amendment, unless the support of those affected is forthcoming.

For that reason much of Congress remains willing to let the President keep the whip hand. They will pass any strike law he wants, won't enact any he opposes. Because they are fully convinced that Roosevelt himself must make the law effective by enticing the workers into cooperation, they will string along with him a while.

Congress will remove many of the tools with which organizers have been using labor as a racket but it will remain the responsibility of the Executive to wheedle the bulk of labor into good behavior.



Ewing Galloway Photo

What Is The Future For COMMON STOCKS?

BY LAURENCE STERN

TODAY the most frequently voiced arguments against common stocks as investment media are the following:

(1) Sharply higher taxes will reduce the current earning power of the majority of corporations. Since we don't know what the maximum tax load will be, how can anyone guess what equity values may be?

(2) Anyway, the profits of companies participating in the armament activity are temporary. They will terminate, or be radically reduced, with the end of the defense emergency and nobody knows when that will come.

(3) We can't even be sure that the private enterprise system will survive this war and the post-war economic strains. The Federal bureaucrats may eventually take over the whole thing. Who knows?

Let's consider No. 3 first. Of course, it can be dealt with only on a basis of opinion and conjecture. It cannot be refuted in terms of facts and figures. Indeed, as far as they go, the visible facts—multiplying and tightening Federal controls over our economic-financial system, following a seven-year New Deal trend in the same general direction prior to the war—tend to give a certain plausibility to fears for the capitalist system itself.

The trouble with this subject is that too many people insist on approaching it in terms of all black or all white—enmeshing themselves in over-simplified generalizations. The human tendency of those who are satisfied with the *status quo* is to fear, oppose and denounce any change, and exaggerate its possible dangers. There was a time when conservative capitalists believed *laissez-faire* was virtually God-ordained and that any governmental "interference" with it was "Socialistic." Now the term itself has virtually disappeared from the literature of economics.

The modernized version of the *laissez-faire* school of thought would not for a moment favor going back to the law of the jungle and dog-eat-dog in economic competition—but holds that the function of government, in its relations to the economic system, should be essentially that of a policeman or umpire and not "a participant in the game." But this concept also began to be broken down or modified many years before the New Deal was swept into power by our greatest of depressions. In principle, there is no difference between a protective tariff system and government regulation of the volume and uses of bank credit. Both represent "Government planning" and direct Federal intervention in the functioning of the capitalist system.

Such successful exponents of democracy and capitalism as England, Sweden and Switzerland were years ahead of this country in developing the concept that the adequate functioning of the capitalist system cannot be left entirely to private initiative and must be increasingly a responsibility of national government. Long before this war, they and most all other countries were moving in the direction of national "economic management."

Now you can quibble over terminology if you like, but to my way of thinking this is not "State Socialism" or "State Capitalism." It is an evolutionary capitalism. I see nothing in either the traditions or present leanings of the American people to suggest that we are headed for public ownership and operation of the means of

production—and that alone would actually be "State Socialism." On the contrary, I *know* they don't want and will not accept this; and I *think* the New Deal planners and reformers, along with the great majority of labor leaders, would be genuinely terrified if they thought such a choice had to be made. "Take over" our economic system? They wouldn't know what to do with it—and they know it!

Reform, relief, regulation, monetary-credit "management," etc.—this is something else again; not the crack-up of the capitalist system. The return realizable from the successful investment of private capital may not be as large as formerly. Your dividends may not be as generous as you would like. Some of your bonds may one day default on interest, as various others have sometimes done in the past. But the vast bulk of American enterprise—certain government-owned utilities to the contrary notwithstanding—will continue under private ownership and management, recording capitalist profits and losses on capitalist books, paying capitalist prices for materials, hiring labor at capitalist wages, meeting capitalist bond interest and capitalist taxes as best they can, distributing capitalist dividends when earned, having outstanding capitalist securities which will continue to be subject to capitalist fluctuation in value.

What Could Be Safe?

If the capitalist system were headed for extinction, of course no type of investment could be considered safe—including gilt-edge bonds or trust funds. In other words, if we must fear the "State Socialism" threat at all, we must fear it just as much for all types of private investment as for common stocks. In the war period to date various speculative preferred stocks—and a few equities—have experienced a major *appreciation* in value. If there is no place in the future for private investments and speculations, why should this be? Actually, of course, it means that investors and speculators are still applying initiative and discrimination. They are grousing about the threat of "State Socialism" in an academic way—but not really acting upon it.

If the country is permanently committed to New Deal social and economic philosophies—which can't be certain—two conclusions cannot be escaped: (1) a larger share of the total national income than formerly will go to the lower income people and a smaller share to people in the middle and upper income brackets; (2) but—and this is an important off-set—the New Deal appears definitely to have abandoned for good the restricted-production theories of N R A days and to have embraced the concept of an economy of abundance.

It is more than possible that peace—dictated by the Allies—will usher in not economic chaos but the start of a very long period of record-breaking economic expansion. At best, therefore, there is a long period of beneficial inflation ahead of us; at worst, a more radical inflation which, however, would be likely to take much longer to run its course than most investors imagine. Neither alternative *of itself* constitutes any kind of argument against common stocks. Just the contrary.

And now let's have a look at the argument that armament profits are temporary. Of course, they are—but most of the enterprises now garnering such earnings are precisely the types which have always been most sensitive to the fluctuations of the industrial cycle in peace time. For example, when were the profits of steels, machine tools or railway equipments anything but temporary? They had a seven-year period of good earnings in 1923-1929; three years averaging fair in earning power in 1935-1937; and in the present instance they have already had three years of the upward cycle. If

Gendreau Photo

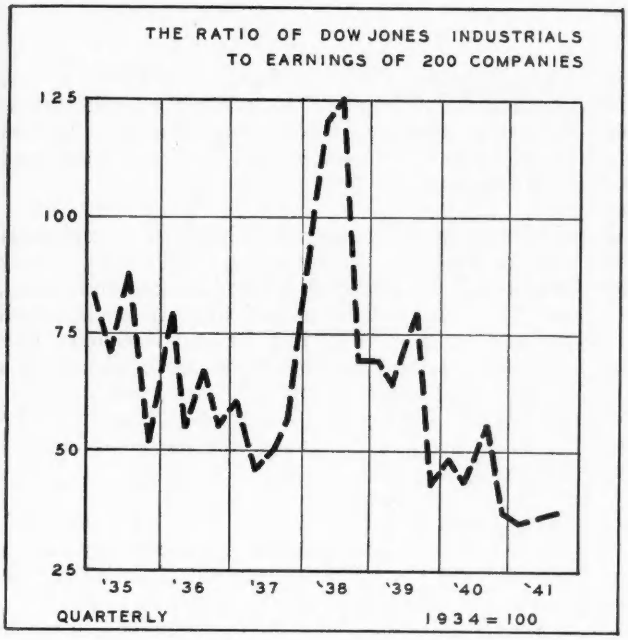
I had to make a bet on it, I would bet that there are not less than two more years of this activity ahead and that, regardless of any probable increases in taxes, earnings in the heavy industry and armaments sector of our economy will at least remain above the average of the 1935-1937 period. Yet, regardless of wide individual variations in price-earnings ratios, the aggregate of heavy industry-armament profits is capitalized substantially lower by the stock market than were cyclical-company earnings in such deep depression years as 1934 and 1938.

I am not here arguing that U. S. Steel, for instance, is a bargain at a price less than five times current annual earning power or that General Foods is too dear on a price-earnings ratio nearly three times higher. The investment consensus regarding probable longer term continuity of dividends is the most pertinent point of distinction.

In fact, you will be on more solid and realistic ground if you appraise all common stocks in terms of dividend potential than with regard to earnings and price-earnings

ratios. "Prince and pauper" enterprises — even the strongest of them—characteristically distribute a much smaller percentage of earnings in dividends than do "stable income" companies. In not a few instances, because of the need for greater working capital, secondary companies now enjoying large earnings for the first time in many years will distribute little or nothing in dividends. Hence they can hardly be considered bargains though prices may be only two to three times earnings. On the basis of dividends paid during the past twelve months, United States Steel common is currently priced on an apparent yield basis of approximately 7.7 per cent and General Foods of about 5.08 per cent. The difference is far smaller than in the respective price-earnings ratios.

There are some *investment* portfolios in which common stocks have no place today or at any other time. There is no *investment* portfolio in which they should



be the only commitment. For the purposes of the great majority of individual investors they have today, as in the past, a valid and proper function in balancing and diversifying portfolios. Naturally, the percentage of a total investment fund that should be allocated to equities defies generalization—depending entirely on the individual circumstances and objectives. Generally speaking, however, there is a valid argument why this percentage should be at least somewhat *larger* now than in normal times. The reason is the combination of generally low equity prices, high yields and an inflationary rise in living costs and personal income taxes. If, for example, you have 25 per cent of your fund in common stocks, you might well consider raising the proportion to, say, 40 per cent; with corresponding reduction of investment in low-yield, fixed-income securities.

I cannot, of course, give you any assurance as to what future corporate taxes may be and how much present earning power may be impaired. I have a hunch, however—and not entirely without reasoned foundation—that the next tax bill will raise *corporate* tax rates by a smaller percentage than did the 1941 legislation; that before the end of 1942 corporate taxes probably will reach the maximum basis "for the duration," giving investors a foundation for calculation; and, finally, that when maximum corporate taxes have been established it probably will be found that the *worst* in taxes had been substantially, if not completely, discounted by prevailing equity prices in the closing weeks of 1941.

It is, naturally, not possible to give you statistical proof of this, but I can give you a statistical *perspective* that ought to be to some extent reassuring.

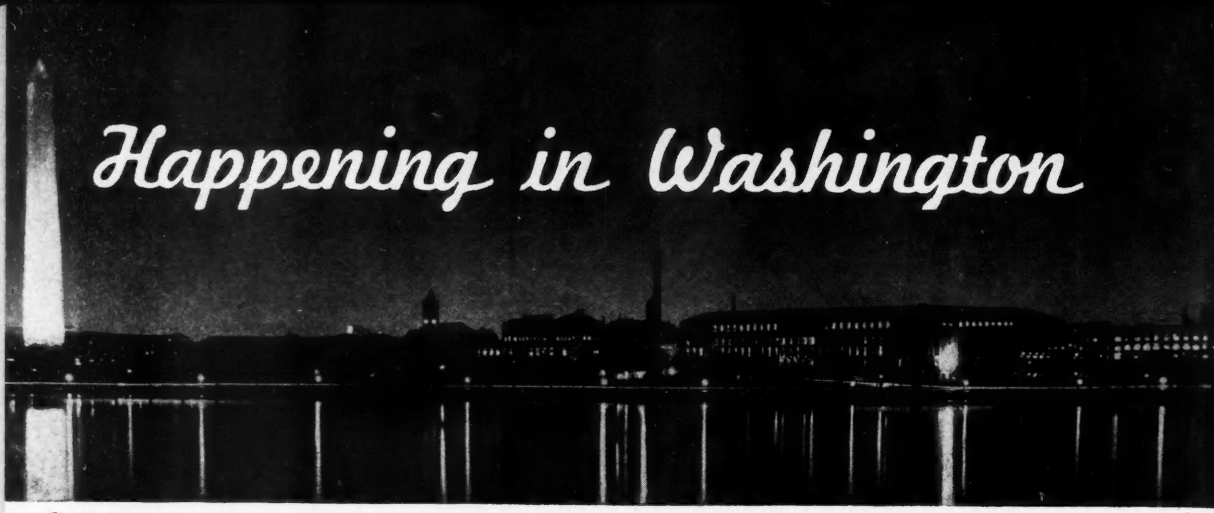
At this writing, the average price of all common stocks listed on the New York Stock Exchange may be estimated at approximately $23.50 per share. It is not possible to estimate the total earnings of these listed companies, but for the perspective that I am trying to set up this is not necessary. It is feasible to estimate, at least roughly, the total 1941 earnings for all active corporations in the country and when this official figure is compiled—a long time hence by the Treasury—it probably will prove to have been somewhere around $5,500,000,000, as compared, for example, with only $162,000,000 in the depression year 1934. Now at the lowest monthly market value of 1934, the average listed equity was priced at $21.92. In other words, American corporate enterprise in aggregate appears to be—on the basis of these estimates—some 3,295 per cent more profitable than in 1934 but the average equity price on the New York Stock Exchange is only 7 per cent above the lowest monthly figure of 1934 and is about 11 per cent under the *average* of 1934.

The Question of Earnings

For 1934 the total earnings of all corporations, as reported to the Treasury, were equivalent to 14 cents per share of total shares listed on the Stock Exchange; and at the 1934 market low the average equity price was equivalent to 156 times this total corporate earning power per share. On the same basis of comparison, total estimated 1941 earnings are equivalent to $4.02 per listed common share and the hypothetical price-earnings ratio is 5.8.

In ratio to national corporate earning power, equities on the Stock Exchange are more than 96 per cent cheaper than at the lowest level of the market in 1934 and 63 per cent cheaper than at the lowest level of the spring of 1935. It would seem obvious that these relationships (1) make excessively pessimistic allowance for any probable coming reduction in earning power and (2) capitalize reasonable earnings expectancy on a remarkably low basis.

It need hardly be said that the earnings future for the individual companies listed on the national exchanges will be almost infinitely varied. Consider the two extremes represented by Consolidated Edison on the one hand and United Aircraft on the other. The utility is characterized by a relatively rigid relationship between operating costs and rates charged; and its potential gain in volume is quite restricted. Obviously, therefore, it would be decidedly vulnerable (*Please turn to page 226*)



Happening in Washington

Charles Phelps Cushing Photo

BY E. K. T.

Allocation system, as a substitute for priorities, offers no salvation to small industry threatened by raw materials control. Allocations are aimed rather at assuring production of war supplies plus certain essential consumer goods. Some plants turning out such consumer items will be lucky enough to get allocations of raw materials. The bulk of small enterprise won't. The task of preserving small plants for post-war community stability is minimized to only a negligible degree by allocations.

Price control bill illustrates legislative tomfoolery that impedes defense progress. The measure delegates price-fixing powers to a price administrator heading an "office of price control." Already organized and functioning under Price Administrator Leon Henderson is the "office of price administration." Shifting the last word of that title from "administration" to "control" necessitates new stationery, enormous bookkeeping alterations, revised payrolls, transfer of workers, and hundreds of odds and ends changeovers.

> ### *Washington Sees:*
>
> Taxation, price control, and non-defense economy have become so closely related in congressional minds that new taxes can't be written into law before next year, probably not until April or May at the earliest, possibly much later. Most legislators are unwilling to hike taxes again until something has been done about controlling prices and curbing non-defense expenditures. Passage of a revenue law can be expected to come last in this sequence.
>
> A price control bill will be voted no later than early 1942. The non-war budget will be whittled down by possibly a billion dollars. This will be only a fly speck on the outlay chart but will encourage lawmakers to tell their folks back home they must shoulder a heavier tax burden in behalf of defense. Congressional committees may undertake this year preliminary studies of machinery gearing the tax law to a war economy, but the voting will be deferred until long after the holidays.

The Treasury will shortly unlimber its big propaganda guns to accelerate defense savings bond sales. Every hamlet will be equipped for ballyhooing and selling, every employer will be pressed to clear bonds for his workers. Sales were up 19.2 per cent in October over September, totaled two billion dollars in the first six months of offerings. But the Treasury isn't satisfied, will headline a two-pronged eulogy that everybody buying bonds helps to (1) finance the war effort and (2) curb costly inflation.

Liberty loan financing technique won't be revived. It's frowned upon within the Administration largely because experts feel a liberty loan drive wouldn't be effective in combatting inflation. Experience taught that wealthy persons with large amounts of idle capital bought liberty bonds and collected handsome interest. Other buyers borrowed money from banks to finance their purchases. Such buying doesn't discourage inflation by shrinking the amount of money the average fellow has to spend.

O P M is bursting at the seams. That agency is now hiring new workers at a 225 weekly average. It's expected to reach the 10,000 total mark shortly. Next year it may double.

Petroleum situation in Russia isn't alarming yet. All important producing regions are still in Soviet hands. Baku, which produces three-fourths of the total output, is 800 miles beyond Rostov. Between this field and Nazi troops is interposed one of the highest mountain ranges on earth. Chief bottleneck is high octane aviation gasoline because of refining difficulties. The Administration proposes to minimize this by supplying American fuel.

Harold Ickes won't get by with any tricky business in his new role as coal coordinator. The Senate committee which de-glamourized his phony gas shortage will see to that. By mandate of the Senate, the committee is remaining definitely alive. If Ickes gets truculent again the committee will slap him down again. The remedy is just that simple.

S E C amendments simplifying registration of securities aren't likely at this time. The S E C feels it already has adequate authority to allow condensation of material usually filed in prospectuses. However, the S E C would like to do something about supervising private sales to insurance companies and that may come along early in the new session.

Long-range seaplanes are being relied upon to protect from Japanese seizure valuable strategic materials in the Far East. Military observers report that American flying boats have been quartered in the Philippines, Malaya, and the East Indies is such numbers as to discourage Japanese aggression in that direction. The Jap drive, when and if it comes, is expected to be into southern Asia. It is calculated here the Japs could operate a six-month blitzkrieg.

Latin American propaganda efforts by the Administration are taking a bad turn. The State Department has secretly hired an American publishing firm to print in various languages and distribute to our southern neighbors periodical broadsides ballyhooing American defense efforts. Simultaneously, the Coordinator of Inter-American Affairs, an O E M offshoot, is high pressuring Washington newsmen and trade journalists into publicizing releases on trade opportunities in Latin America. There's a catch—the reporters are prohibited from mentioning the coordinator, must assume full responsibility for these releases themselves.

Dehydrated foods, promising infant of the foodstuff industry, will find its growth stunted by priorities. This relative newcomer is demanding the green light on machinery and aluminum foil with the argument it's vital to defense. But plain fact is the British don't want dehydrated foods other than eggs. Nor does the Army and Navy, with but unimportant exceptions. So expansion will be curtailed until post-war days.

Food specialists with O P M are disturbed a bit over the Russian situation. They haven't been able to gauge probable Russian food needs. They do know great Russian wheat fields have been lost to the invaders. They're frankly apprehensive ultimate Russian demands may upset the farm program in this country.

Low-cost jewelry is plaguing O P M policy makers. American firms turning out such ornaments are being denied raw materials. They face ruin. They're told raw materials must be conserved for lend-lease goods for Britain. But British jewelry manufacturers still operate full blast and British ships bring this British jewelry into the United States for sale in markets from which American jewelry makers are being driven by priorities restrictions. That's making interested Congressmen plenty mad—even those favoring British aid.

Enforced savings talk is more than a flash in the pan. It's one inflation deterrent eyed favorably by a lot of small thinkers as well as the master minds around Washington. Keep abreast of the suggestion that buyers of certain luxury consumer goods be required to purchase Government stamps not redeemable until some distant date. This idea is more than a flimsy trial balloon.

Strategic materials continue to be siphoned out of this country to Canadian industry while small plants here are being told to shift for themselves or fold up. That's causing crabbing on Capitol Hill which may explode into revolt. O P M won't deny that the very non-ferrous raw materials being denied small manufacturers without defense orders are flowing across the line into Canada. Administration front men have warded off congressional investigations of the war effort impact on small enterprise but their luck may not hold out much longer in the face of mounting dissatisfaction over O P M fumbling.

Social security payroll tax boosts will be for longer than the duration. Reformers cry these taxes must be increased to curb inflation. Plain fact is they want higher payroll levies to (first) help finance the war and (second) redistribute wealth. If Congress hikes such taxes they may never be cut back to existing levels.

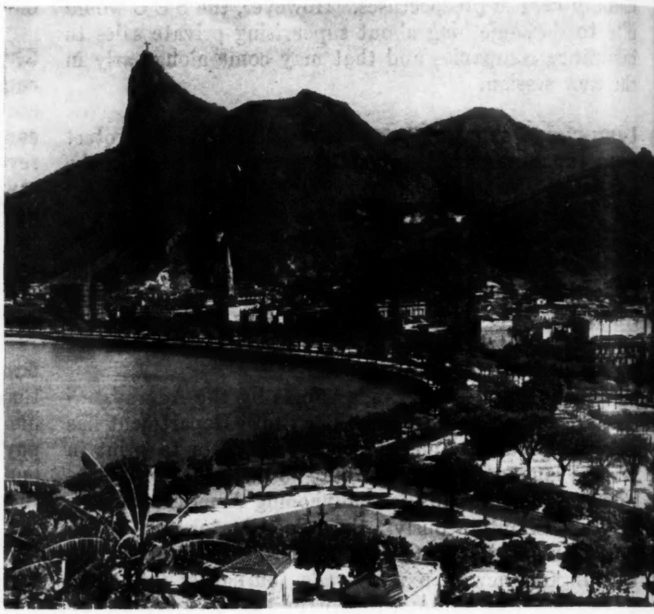
Federal Trade Commission may lose its 71-year-old Chairman Charles H. March next year. His term expires September 25, just 24 days before his 72nd birthday. He has been on the Commission 13 years and talk has it the President may prefer a younger man.

Long-range American planes based in the Philippines, Malaya, and the East Indies are ringing Singapore, Gateway to the East, with wings of steel. *Ewing Galloway Photo*

The U. S. Challenges Hitler's "New World" Order

BY V. L. HOROTH

There is neither strategy nor tactics that will enable us to end this war as we began it, an easy-going people living off the fruits of Empire. We must turn our restrictive monopoly economy into an expanding consumption economy, raise the purchasing power of raw materials countries within and without our Empire, and by enriching the world as a whole, lighten the burden of war on our people.—New Statesman and Nation (London).



Rio de Janeiro *Sawders from Cushing*

In these days when most of the world is engaged in military struggle and when the existing economic machinery is in a state of serious disorder, the idea of political freedom has become to a large extent synonymous with the idea of economic freedom. But outside of Western and Central Europe and North America, economic self-sufficiency based upon an advanced stage of industrialization, wide diversification and the existence of an internal capital market, has been approached by but a few countries, the Soviet Union and Japan among them. The majority of the countries, including the twenty Latin American republics to the south of us, are passing from a raw material and agricultural producing stage to the stage in which they are beginning to develop manufacturing industries and to create their own capital.

In Latin America the metamorphosis from primitive economy to a more advanced stage started during the First World War, although the new textile, shoe, paper, cement and canning plants survived only because of the high protective tariff. The depression in the early thirties forced Latin Americans to help themselves and resulted in a greater diversification of manufacturing and of other activities as well. However, by far the most powerful stimulus was given to Latin American—or more properly, South American—industrialization by the Second World War.

Therefore if the Latin American republics are to maintain their political freedom in the future, it is imperative that we help them to secure as much economic freedom as possible. Since they cannot stand as self-sufficient economies individually, it may be necessary that we bring them together and encourage their political and economic cooperation even if it should mean a temporary loss to our trade. A bold suggestion was made recently that we should work toward a custom union of all Western Hemisphere countries or at least of all Latin American nations. At any rate, we must cooperate with Latin American republics in the development of their industries and public works, we must protect their currencies and continue to provide them to our best ability with the equipment necessary for old and new essential industries. We must provide them with technical experts—as is already being done—and advise them on the social problems

LATIN AMERICAN TRADE

(In Millions of Dollars)

Year	Total Trade Exports	Total Trade Imports	Total Trade Surplus	U. S. Trade With Latin America: Exports to L. A.	Imports from L. A.	Surplus + Deficit —	U. S. Purchases of L. A. Newly-mined* Gold	Silver
1929	3,167	2,707	+460	912	1,014	—102	..	..
1930	2,268	2,079	+189	628	677	— 49	..	..
1931	1,705	1,218	+487	312	478	—166	..	..
1932	1,030	610	+420	195	323	—128	..	..
1933	1,178	794	+384	216	316	—100	..	..
1934	1,632	1,043	+589	307	370	— 63	60	27
1935	1,722	1,117	+605	344	460	—116	39	70
1936	1,908	1,248	+660	395	502	—107	71	41
1937	2,428	1,654	+774	578	672	— 94	77	38
1938	1,798	1,459	+339	494	453	+ 41	68	43
1939	1,906	1,327	+579	569	518	+ 51	81	42
1940 (est.)	1,758	1,257	+501	726	620	+107	80	36
1941 (est.)	.....	.....	.....	850	1,100	—250	..	..

* Partly estimated.

which industrialization is likely to create. In general, we must see them through the period of transition from a primitive to a more advanced economy, the stage in which they are finding themselves at present.

This is not all, however. As we have stressed again and again in these discussions, the United States must help our Latin American sister republics without assuming a "master race" role, and without giving them occasion to suspect us of imposing on them a new kind of imperialism. Tact and generosity are two virtues that can make the post-war world a better place in which to live.

Above all, however, our helping Latin America to become economically and, hence, politically more independent, is the most effective way of combatting the challenge of Hitler's "New Order" in the Western world. By skillful propaganda, by assuring them a market for their products on the Continent of Europe, the Nazis have hoped to estrange Latin Americans from the United States and to bring them under the economic vassalage of the Reich. Judging from the handling of conquered people on the Continent of Europe and from the deliberate weakening of the economies of individual European countries, the Nazis would probably not hesitate to interrupt the process of industrialization now going on in Latin America. They would undoubtedly coerce Latin Americans into carrying on solely as the producers of foodstuffs and industrial raw materials with the terms of exchange dictated by Berlin. It is possible that such controlled international specialization of production—a conception which the Nazis have borrowed from lassez-faire economy—would result in higher living standards. On the other hand, it would give the Nazis practically a monopoly of international trade, and reduce Latin America as well as other countries to the status of colonial economies.

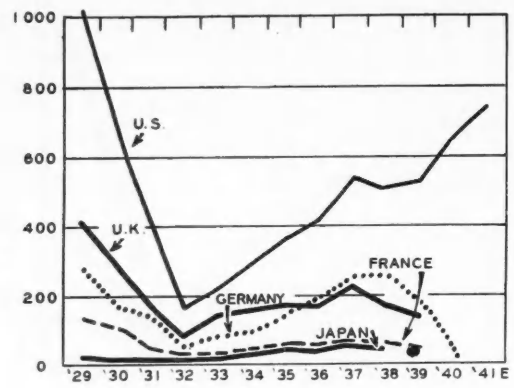
Importance of American Co-operation

Such a neo-feudalistic solution of the post-war international economic order would be hardly any improvement over the capitalistic imperialism of Great Britain, France and the United States. In fact, it would be a step back, since the old-fashioned capitalism has really never stood in the way of economic or social advancement of economically backward countries and has not known any racial lines. There is no reason why some international specialization of production could not be preserved even with the industrialization of former primary producing countries and extended control over trade. Moreover, a way may be found for foreign capital, which as a whole has been successful in developing Latin America, to cooperate with native capital which is beginning to be generated in an increasing volume.

In recent months our cooperation with Latin America has taken an increased number of forms. At the same time, a decided decline of pro-Hitler sentiment has been noticeable in reports from Latin America. This development as evidenced by the expulsion of Nazi consuls, investigation of German activities in Argentina, Uruguay and Chile, elimination of German air lines on the West Coast, and the presidential coup in Panama, may be as much a reaction to our stronger war moves as to the growing feeling that the war will eventually end with an Allied victory.

Among other important moves intended to facilitate trade between this country and Latin America has been the decision of the Export-Import Bank to provide special one-year credits to various Latin American commercial banks, designated by central banks in the respective countries. These commercial banks will be able to open letters of credit in favor of American exporters who will receive cash payments at the time of shipment of goods. Under these credits the Latin-American importer will not have to pay until he obtains actual delivery of the merchandise. One of the objects, according to Mr. Warren Lee Pierson, President of the Export-Import Bank, is to "minimize financial problems arising from the shifting of Latin American import agents from those of pro-Axis activities—most of whom were financially strong—to others more favorable to us." In general, the new credit plan will make it possible for Latin

LATIN AMERICA IMPORTS
(Million Dollars)



American importers to conduct business along lines extended to them in the past by European suppliers.

The significance of the Trade Agreement between the United States and Argentina, signed on October 14, lies not so much in the tariff concessions, which will apparently have only limited practical values, as in the political rapprochement between the two countries, jealous of each other's leadership in the Western Hemisphere. As such the Agreement has become a milestone in the development of inter-American solidarity. Argentina has also formally attested her adherence to the multi-lateral principles of international trade, although certain special bi-lateral payment agreements with Great Britain were left standing.

Extension of loans under Lend-Lease agreement to such strategically important nations as Brazil or Cuba has been another development of the past few months. The loan to Brazil, said to involve some $100,000,000, is to be applied for the strengthening of Brazilian defenses. Another contribution to the cause of Hemisphere defense and solidarity has been the conclusion of a broad pact between Mexico and the United States. Under this agreement Mexico will pay us about $37,000,000 in settlement of land and oil claims, while the United States Treasury has agreed to spend $40,000,000 to stabilize the Mexican peso and to buy another $2,000,000 worth of Mexican silver a month. In addition, the Export-Import Bank will purchase Mexican highway bonds in order to expedite highway construction program.

By far the most important factors compensating Latin American republics for the loss of European markets have been our purchases there of raw materials and foodstuffs for defense production and increased private demand. The change which has taken place in the Latin American economic situation within less than a year, as a result, can hardly be appreciated. In the summer of 1940, when the half-billion dollar trade of Latin America with the Continent of Europe came practically to an end, the shortage of foreign exchange forced Latin American nations to curtail drastically their purchases in this country. The trade, in fact, became bi-lateral—determined by our purchases of Latin American goods. It was only because of the loans by the Export-Import Bank, which provided the necessary dollar exchange for the purchase of industrial and transportation equipment, that the crisis has not become worse and that the tempo of industrialization has been merely slowed down.

By the spring of 1941 we had come around to buying practically all strategical raw materials produced south of the Rio Grande. The advance in prices also helped to bolster up the value of our purchases—and incidentally of Latin American purchasing power. Dollar exchange shortages of 1940 were changed to large dollar exchange surpluses in 1941. On the basis of the last few months' figures, we are buying Latin American products at the rate of about $1,100,000,000 a year, which is about $400,000,000 more than we bought in 1940 and at least twice as much as in 1938 and 1939. Despite restriction on certain imports, despite the scarcity of cargo space, our purchases have become so large that they have fully compensated Latin America for her loss of Continental markets.

By happy coincidence we have increased our purchases most from those countries which have been particularly dependent upon the European market. Our imports from the ABC republics and Uruguay have now reached an annual rate of almost $500,000,000, or more than twice as much as we bought from them last year. It has been impossible, however, to allocate our purchases in such a way as to offset the loss of European trade in each individual product.

Thus a tremendous task of readjustment has been imposed, for example, on Argentina's economy. In normal years, the value of the three principal grain exports—wheat, corn and linseed—is far in excess of combined meat and wool exports. At the present time, both meat and wool exports individually far exceed the combined value of grain exports. In an effort to adjust her trade to Hemisphere needs, Argentina is courageously replanning her agriculture, by concentrating on dairy products and the output of such industrial fibers as flax.

Our exports to Latin America have not expanded, of course, so much as our imports from (*Please turn to page 222*)

LATIN AMERICAN SURPLUSES OR DEFICITS IN TOTAL TRADE

(In Millions of United States Dollars)

Year	Argentina	Venezuela	Chile	Brazil	Mexico	Cuba	Colombia	Uruguay	Peru	Nine Countries	Others	Latin America
1929	88	63	86	40	101	56	1	..	41	476	—16	460
1930	—102	71	—6	57	51	5	49	+11	32	168	+21	189
1931	78	74	16	101	74	39	56	—19	21	440	+47	487
1932	116	60	8	72	39	29	37	+ 1	19	381	+47	420
1933	70	84	23	46	33	40	19	2	24	341	+32	384
1934	99	153	50	81	86	33	40	6	30	578	+13	589
1935	116	140	35	44	96	34	20	28	31	544	+61	605
1936	162	149	42	74	88	51	21	28	35	650	+10	660
1937	275	163	104	16	78	57	8	14	33	748	+26	774
1938	— 6	178	36	3	57	37	2	12	18	337	+ 2	339
1939	+ 87	194	51	44	42	42	— 3	19	24	500	+22	579
1940	+169	168	40	14	75	23	9	19	14	531	+23	501

Safeguarding Against Dividend Casualties

While dividend payments in the aggregate are not keeping pace with record-breaking industrial and retail activity, the opportunities for investors interested primarily in income have never been more numerous. The tabulations which comprise the balance of this study cover 1940 earnings, interim earnings, dividends paid or declared to November 18, and current price times *dividend* ratios. The price times dividend ratio is another method of stating yield, but it has the advantage of magnifying the differences in yield where comparison with similar stocks is desired. Thus, a yield of 6 per cent is the equivalent of a price times dividend ratio of 16.6; a yield of 5 per cent to 20; and a yield of 4 per cent to a price times dividend ratio of 25.

All dividend-paying common stocks require reappraisal as to income stability in relation to dominant factors such as the impact of the defense effort on operations and profit margins, the inroads of taxes on net profits, and the availability of cash for dividend distributions. Greatly enlarged working capital requirements are compelling corporate directors in numerous instances to act conservatively with respect to dividend policy.

The tabular column devoted to comments is intended to clarify the operating and profit prospects of the specific companies covered, and to provide definite conclusions based on pertinent business and statistical data which will enable readers to determine more readily how secure dividends may be. Subsequent issues also will cover leading stocks alphabetically.

COMPANY	EARNED PER SHARE 1940*	Latest Interim 1940†	Latest Interim 1941†	Dividend Paid to Date‡	Price Times Dividend●	COMMENT
Abbott Laboratories	$2.89	$2.34	$2.34	$1.50	24.7●	While operating profit running well ahead 1940, heavier taxes are expected to reduce net slightly. Continuation regular 40-cent quarterly, plus usual 10-cent extra is indicated.
Acme Steel	6.43	5.02	7.27	4.00	11.5	Establishment of a $1 quarterly rate this year and payment of $4 per share, compared with $3 for 1940, reflects large earnings in prospect. Year-end extra possible.
Air Reduction	2.38	1.77	1.93	2.00	18.5	Despite higher taxes, earnings this year will be well above 1940. The 25-cent quarterly dividend supplemented by quarterly extras of like amount, are expected to be continued.
Allied Chemical	9.43	....	....	4.50	18.4●	Earnings this year are expected to approximate $11 to $11.50 per share. The $1.50 quarterly dividend rate seems likely to be supplemented by liberal extra, as in 1940.
Allis-Chalmers	2.84	2.12	2.35	1.50	17.3	Earnings of about $3.25 to $3.50 are indicated. Moderate continuation upward earnings trend seems likely based on order backlog. Larger dividends may be warranted in 1942.
Alpha Portland Cement	1.44	1.22(c)	1.93(c)	0.75	15.3●	While taxes are limiting factor, good gain in earnings is probable this year. Continuation at least of 25c quarterly rate is indicated.
Aluminum Co. of America	25.12	....	....	6.00	17.2	Due to heavy excess profits taxes, earnings will probably recede this year to around $20-22 per share. Conservative dividends are required by expansion program.
Amerada Corp	2.25	1.68	2.31	2.00	29.1	Substantial earnings gains this year are expected, and outlook is bright. The quarterly dividend may not be raised immediately.
American Brake Shoe	3.49	2.13	2.49	1.40	15.0●	The heavier tax burden will limit 1941 earnings to about the level of 1940, but the favorable operating trend may justify larger year-end extras.
American Can	5.88	....	....	4.00	18.5	Profits, after taxes, will probably recede to around $4.50 per share, but, barring Far Eastern developments impairing raw material supplies and operations, continuance of $1 quarterly assured.
American Chicle	8.42	6.31	6.24	6.00	18.0	Higher taxes are restrictive factor, and net earnings of about $8 to $8.25 per share are expected. Dividends this year total $6 per share against $6.50 for 1940.
American Crystal Sugar	2.17(7)	....	....	1.25	9.0●	Despite higher taxes, earnings for the fiscal year ending March 31, 1942 are expected to more than double 1940-41. Maintenance at least of indicated $2 annual dividend is probable.
American Cyanamid "B"	2.44	1.52	1.53	0.60	51.0●	Earnings this year will approximate 1940 level, but 15-cent quarterly rate may be supplemented by year-end extra.
American Gas & Electric	3.00	2.98(c)	2.94(c)	2.00	10.5	Ample coverage of present 40-cent quarterly plus 10-cent extra seems likely during early months, but reduction may be required if another sharp boost in taxes occurs.
American Hawaiian S. S.	7.87	6.28	4.72	3.00	9.5●	Excluding proceeds from sale of ships in excess of book value last year, earnings this year are running well ahead of 1940. Fairly liberal dividends should continue.
American Home Products	5.32	3.85	3.87	2.40	16.7●	While taxes will probably reduce earnings slightly this year, maintenance of 20-cent monthly dividend is fairly assured. Year-end extra may be voted.
American Light & Traction	1.84	1.70(c)	1.91(c)	1.20	10.0	Earnings this year probably will exceed 1940 levels, after taxes, and will comfortably exceed 40-cent quarterly dividend, no immediate change in which is indicated.

COMPANY	EARNED PER SHARE 1940*	Latest Interim 1940†	Latest Interim 1941†	Dividend Paid to Date‡	Price Times Dividend●	COMMENT
American Metal Co., Ltd	2.69	1.06	1.26	1.00	9.4●	Earnings this year will moderately exceed 1940, and operating outlook is favorable. Regular 25-cent quarterly dividend will be maintained, and year-end extra may be paid.
American Meter	3.97	....	....	3.25	8.6	With an increasing proportion of sales represented by measuring appliances, earnings should be maintained at high levels. Continuance of liberal quarterly dividends seems likely.
American Rolling Mill	1.96	0.83	2.33	1.40	8.2	Earnings this year may approach $2.75 per share, and should hold up relatively well in forthcoming quarters. Dividends will remain moderate, however, because of heavy expansion outlays.
American Safety Razor	0.73	0.54	0.45	0.50	10.0	Earnings remain in a downward trend and may require further downward revision of dividend payments.
American Smelting & Refining	4.21	2.12(6)	2.29(6)	2.00	13.7●	Earnings of around $4.50 to $4.75 per share are indicated for 1941. A year-end special may supplement the 50-cent quarterly dividends disbursed thus far.
American Snuff	2.67	....	....	3.25	10.1	Largely because of heavier taxes, earnings this year are expected to decline below 1940, and, with operating economies largely offset, continuance of regular 75-cent quarterly may be imperiled.
American Sugar Refining	0.65	....	....	0.50	18.5●	Despite increased taxes, earnings this year are likely to be well ahead of 1940. Another dividend on the common may be disbursed before the year-end.
American Telephone & Telegraph	11.26	10.92(a)	10.78(a)	9.00	16.5	Consolidated earnings may recede to around $10 or $10.25 this year because of heavier taxes and operating costs, but the $2.25 quarterly dividend rate is considered relatively secure.
American Tobacco "B"	5.59	....	....	4.50	13.0●	The dividend reduction from $1.25 to 75 cents has been largely discounted. Earnings next year will be determined by tax imposts, but dividends above $3 annual rate seem likely.
Anaconda Wire & Cable	4.07	2.18	5.09	1.50	15.0●	Direct and indirect defense needs will lift earnings sharply. The 50-cent quarterly disbursement may be raised, or an extra declared before the year-end.
Archer-Daniels-Midland	5.69(9)	0.74(3)	1.79(3)	1.85	17.3	Earnings for the fiscal period ending June, 1942, should be above 1940-41 level, despite taxes, largely because of increased demand for vegetable oils. Larger dividends appear in prospect.
Armstrong Cork	2.79	1.42(6)	1.69(6)	1.50	12.1	Earnings this year will approximate $3 per share, and should continue to hold up well, although taxes are restrictive. The $2 annual dividend rate seems secure.
Arnold Constable	1.34(4)	nil(6)	0.01(6)	0.62½	10.8●	Current fiscal year earnings should moderately exceed 1940-41 because of heavier consumer purchases. The 12½-cent quarterly dividend is secure, and may be supplemented by 25c extra.
Artloom Corp	1.04	0.30(6)	0.79(6)	0.77½	....●	The outlook for earnings and dividends is clouded by the slump in upholstery fabrics to the auto industry, and possible interruption of raw material supplies from Asia.
Atlantic Refining	2.11	2.30	3.27	2.00	13.5	Despite heavier taxes, earnings will record sharp gains this year, and continuation of the 25-cent quarterly dividend is indicated.
Atlas Powder	5.71	3.48	4.24	4.50	15.1	Profits this year will be around $8 to $8.25 per share, despite heavy tax appropriations. Sales and operating profits should continue to expand, and liberal dividends may be expected.
Babcock & Wilcox	5.34	2.73	4.61	1.50	15.0●	Earnings are estimated around $6.25-$6.50 per share, and large order backlog assures high operating level. Dividends will be conservative, but probably aggregate at least $2 this year.
Barnsdall Oil	0.97	0.73	1.79	0.60	15.2	Current year earnings will be well ahead of 1940, and dividends should be maintained at least at the 15-cent quarterly rate.
Bayuk Cigar	4.78	3.60	2.87	1.50	13.1	Because of increased taxes, earnings will decline moderately this year. The 37½-cent quar. div. rate should be continued.
Beatrice Creamery	3.19(5)	1.42(6)	1.93(6)	2.00	12.6	Despite higher taxes, earnings for the current fiscal year should compare favorably with 1940-41. The 25-cent quarterly dividend will probably be supplemented by a January extra.
Beech-Nut Packing	6.61	4.90	5.20	6.25	18.7	Net profit for 1941 will be moderately higher than for 1940, and maintenance of liberal dividends may be expected.
Beneficial Industrial Loan	2.61	1.91	1.72	1.25	....●	Government efforts to curb consumer installment sales, and narrowed profit margins, foreshadow reduced earnings. Quarterly payments of 40 cents may be lowered in 1942.
Best & Co	3.63(4)	1.29(6)	1.48(6)	2.00	13.5	Current fiscal year earnings will moderately exceed 1940-41. The 40-cent quarterly dividend rate will probably be augmented by a January extra.
Black & Decker	2.82(1)	1.87	3.21	1.40	10.0●	Earnings for the fiscal year ended Sept. 1941 are estimated around $4.50 per share. Dividends at the 50-cent quarterly rate should be maintained at least.
Bohn Aluminum & Brass	4.09	2.85	3.26	2.00	14.8	Defense busines is expected to lift earnings this year to around $5 per share. The 50-cent quarterly dividend should be maintained.
Bon Ami "B"	3.65	2.66	2.56	2.50	14.0●	Earnings will recede moderately to around $3.50 per "B" share this year after heavier taxes. An extra may be disbursed toward the year-end, nevertheless.
Borg-Warner	2.88	1.76	2.72	2.00	9.9	Because of increased defense orders, net profit this year should approximate $3.50-$3.75 per share. The current 50-cent quarterly dividend rate appears amply protected.
Bristol-Myers	3.73	2.89	3.27	2.55	15.4	While taxes are restrictive, earnings this year will comfortably exceed 1940. The 60-cent quarterly dividend rate is secure.
Brown Shoe	2.02(2)	1.01(6)	2.25(6)	2.00	16.5	Year-to-year earnings gains have slackened in the second half, but full year results will approximate $3.50-$3.75 per share. The 50-cent quarterly dividend is secure.
Bullard Co	6.15	4.35(6)	3.44(6)	1.50	8.6●	Despite heavy tax liability, earnings this year will be around $7 per share. The quarterly payment of 50 cents may be supplemented by a good year-end extra.
Bulova Watch	7.27(7)	1.70(3)	2.54(3)	3.50	8.9	Profits for the fiscal year ending March 1942, are not expected to register material change from 1940-41. Dividends will probably remain conservative.
California Packing	2.64(5)	....	....	1.12½	13.4●	Current fiscal year earnings are expected to be moderately above 1940-41. The increased 37½-cent quarterly dividend rate is regarded as secure.
Cannon Mills	3.88	....	....	1.50	16.8●	After heavier taxes, a moderate earnings advance is indicated this year. The 50-cent quarterly dividend is secure, and an extra may be paid toward the year-end.
Carnation Co	3.56	....	....	1.00	22.0●	Heavier taxes will probably restrict earnings to about the 1940 level. Dividend disbursements are expected to equal $2 per share as year-end payment is likely.
Case, J. L.	3.45(2)	....	....	7.00	11.1	That earnings for the fiscal year ended Oct. 1941 were substantially above 1939-40 is indicated by year-end dividend of $7 per share. Favorable operating levels should continue.
Caterpillar Tractor	4.16	2.91	3.12	2.00	18.7	Net profit this year of about $4.25-$4.50 per share is indicated. The 50-cent quarterly dividend rate probably will be continued.
Celanese Corp	3.39	2.99	2.81	1.50	11.1●	Despite record output, taxes will reduce net profit this year to around $3 per share. Dividends probably will be continued at 50 cents each quarter.

COMPANY	EARNED PER SHARE 1940*	Latest Interim 1940†	Latest Interim 1941†	Dividend Paid to Date‡	Price Times Dividend●	COMMENT
Champion Paper & Fibre	3.36(8)	1.20(b)	0.96(b)	1.00	19.0	While demand for company's products probably continue strong, earnings after taxes may be moderately lower in current fiscal year. However, the 25-cent quarterly dividend may be increased.
Chesapeake & Ohio	4.31	3.25	3.34	3.00	10.6●	Barring unforeseen coal strike developments, earnings this year will approximate $4.50-$4.60 per share. A year-end extra is likely, and the 75-cent quarterly dividend is secure.
Chesebrough Mfg	6.34	....	....	4.50	18.3●	A further moderate decline in earnings seems likely this year, but the financial position should permit continuance of $1 quarterly, supplemented by 50-cent extras.
Chicago Pneumatic Tool	3.01	1.76	4.41	1.50	8.1●	Defense business is holding sales at record levels, and earnings of around $5 for 1941 are indicated. Heavier volumes, however, will probably require conservative dividends.
Chrysler Corp	8.69	7.06	6.77	6.00	8.7	Despite slump in passenger car output, earnings this year will approximate $7.25-$7.75 per share. Business should permit satisfactory earnings, $1.50 quarterly should be continued.
Clark Equipment	5.91	4.35	5.98	3.25	10.5	Although tax liability is heavy, defense equipment deliveries will result in sharp boost in earnings. More liberal dividends may be forthcoming in 1942.
Cleveland Electric Illuminating	3.08	2.98(c)	2.67(c)	1.87½	14.8●	Despite sharp operating gains, earnings after taxes may recede below 1940. The quarterly payments of 62½c appear secure.
Climax Molybdenum	2.40	1.88	2.50	1.90	17.4	Metal shortages and heavy defense demands for molybdenum suggest 1941 earnings of about $3.75-$4 per share. Larger dividends are expected although further expansion may require conservatism.
Cluett Peabody	3.74	1.65(6)	2.11(6)	2.00	12.5●	Demand for men's furnishings and Sanforizing process will raise 1941 net after taxes. Liberal dividends appear in prospect.
Coca-Cola Co	6.77	5.14	5.51	5.00	19.2	Tax increases are curbing profits, and 1941 net may not vary greatly from 1940. Liberal dividends are expected to continue.
Colgate-Palm.-Peet	1.72	0.45(6)	1.21(6)	0.50	10.0●	Sales are reflecting gains in consumer income, and net after taxes may approximate $3 per share, or better. Higher dividends would appear logical assumption.
Collins & Aikman	5.15(6)	2.08(6)	2.15(6)	3.00	6.1●	Year-to-year earnings comparisons likely to continue less favorable due to sharp curtailment in auto fabric sales. Reduction in fiscal year-end extra is expected.
Columbia Broadcasting "A" or "B"	2.92	2.03	2.22	2.00	8.0	Taxes will reduce earnings this year although time sales are expanding. Liberal dividends should continue.
Commercial Credit	4.23	3.00	3.45	2.25	....●	Finance companies have uncertain outlook because of curtailed production of consumers durable goods and government curbs on credit sales. Consequently, dividend cut may occur in 1942.
Commercial Investment Trust	4.35	3.20	3.89	4.00	....●	Cut in auto output and other consumer durable goods items forecast lower earning power, and reduction in dividend in 1942.
Commercial Solvents	0.91	0.61	0.62	0.25	18.6●	Although demand for alcohol and solvents will require capacity output for some time, taxes will restrict earnings this year to around 1940. Another small dividend may be paid.
Commonwealth Edison	2.32	1.68	1.51	1.80	11.7	Indications are that net will be reduced moderately this year because of taxes, but dividends at 45 cents per quarter appear reasonably secure.
Congoleum Nairn	1.30	0.61	0.94	0.75	11.9●	After higher taxes, earnings of around $2 per share are expected this year. The 25-cent quarterly dividend probably will be supplemented by a year-end extra.
Consolidated Aircraft	1.15(p)	....	2.79(8)	2.00(p)	10.4	Earnings per share will be sharply higher this year after adjustment for the 100% stock dividend. Record production and earnings indicated for 1942, and dividends should continue liberal.
Consolidated Cigar	2.26	0.62	1.59	none	6.5●	Sales are reflecting gains in consumer incomes, and net after taxes promises to be above 1940. Year-end dividend seems likely.
Container Corp	2.85	1.95	1.90	1.50	8.9	Despite excellent demand for its products, net this year will recede moderately as a result of heavier taxes. Dividends will remain conservative because of bank loans.
Continental Can	2.82	2.82(c)	2.51(c)	2.00	15.1	Earnings will approximate 1940 level after taxes. Barring interruption of tin supplies as result possible Far Eastern difficulties, the indicated $2 annual dividend rate appears reasonably secure.
Continental Diamond Fibre	1.24	0.70	1.32	1.00	8.9	Although taxes are burdensome, net this year may be 40 to 50 per cent larger than 1940. Since prospects appear favorable, 25-cent quarterly dividend may be increased in 1942.
Corn Products	3.11	1.89	2.40	3.00	16.4	Increased consumer incomes, government purchases, and expanded industrial demand are expected to raise 1941 net to around $3.60-$3.75 despite taxes. The 75-cent quarterly is secure.
Cream of Wheat	1.88	1.16	1.09	1.60	9.2	Despite moderate sales expansion, taxes will reduce 1941 net moderately below 1940. The 40-cent quarterly dividend is regarded as secure, however.
Crown Cork & Seal	3.90	3.29	4.32	1.00	22.5	Earnings are showing substantial gains and the can division is becoming of increased importance. Dividends may continue at a more liberal rate.
Cuneo Press	3.10	....	2.11	1.50	10.2	The earnings outlook is regarded as favorable, and magazine and catalogue printing should reflect gains in consumer incomes. The 37½-cent quarterly dividend rate appears secure.
Cutler-Hammer	1.94	1.40	1.88	1.50	11.0	Despite a heavy tax vulnerability, net this year will be well ahead of 1940. Larger dividends may be warranted next year by favorable earnings prospects.
Deere & Co	3.33(2)	....	....	2.00	11.8	1940-41 fiscal year earnings are estimated around $4.50 per share, and the outlook is good. Despite a heavy tax burden, more liberal dividends may be warranted in 1942.
Devoe & Raynolds "A"	1.16(3)	....	3.26(7)	1.00	16.0	Earnings for the fiscal year ending Nov. 30, 1941, will be sharply higher, and demand for paints will remain good, despite curbs on building. Continuation of moderate dividends is expected.
Diamond Match	1.51	0.77(6)	0.77(6)	1.50	13.0	Taxes will restrict earnings this year to around the 1940 level. Outlook is cloudy but adequate cash resources may permit continuance of $1.50 annual dividend for a period.
Dome Mines	2.06(t)	....	....	2.00(C)	6.3	Heavier Canadian taxes may result in slight decline in earnings this year. Good financial position should permit maintenance of 50-cent quarterly dividend in Canadian funds.
Douglas Aircraft	18.05(3)	12.15	17.89	5.00	12.0	Increased working capital requirements are likely to result in conservative dividends in relation to earnings, which will be substantially above 1940 this year.
Dresser Mfg. Co	3.57	2.81	2.43	1.00	....●	Increased defense business should bolster earnings, and full year-earnings should compare favorably with 1940. A year-end dividend declaration is expected.
du Pont de Nemours	7.23	5.64	5.66	7.00	20.9	Despite heavy tax liability, earnings this year should be better than 1940. Continuance of $1.75 quarterly dividend is indicated.

* Fiscal years ended 1940: (1) Sept. 30; (2) Oct. 31; (3) Nov. 30. * Fiscal years ended 1941: (4) Jan. 31; (5) Feb. 28; (6) Mar. 1; (7) Mar. 31; (8) April 30; (9) June 30; † Interim earnings: (a) 12 months ended August; (b) 16 weeks ended mid-August; (c) 12 months ended September. † Except where indicated, all interim earnings are for the 9 months of the calendar or fiscal year. The figure shown in parentheses after interim earnings indicate the months covered during the calendar or fiscal year. ‡ Dividends paid or declared to Nov. 18. ● Price times dividend ratios are calculated in relation to comments. (C) Canadian funds. (p) Consolidated Aircraft: Adjusted for 100% stock dividend in 1941. (t) Dome Mines: Earnings before depletion.

Another Look At . . .

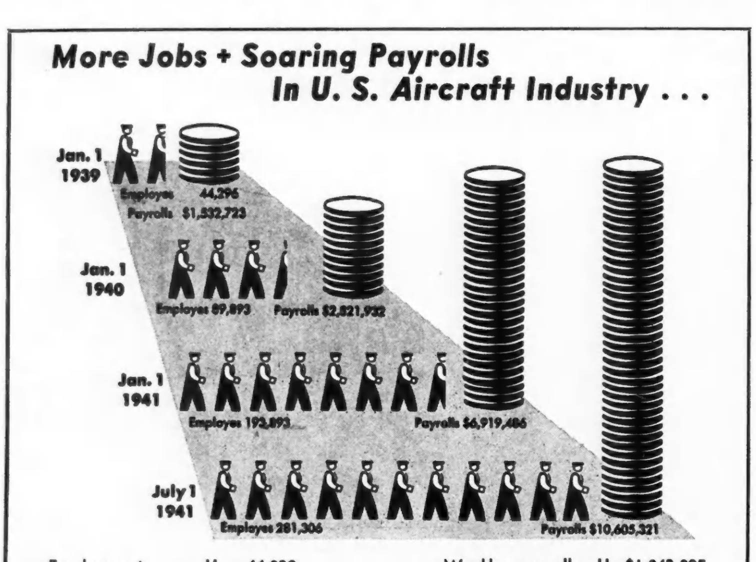
The AIRCRAFT INDUSTRY

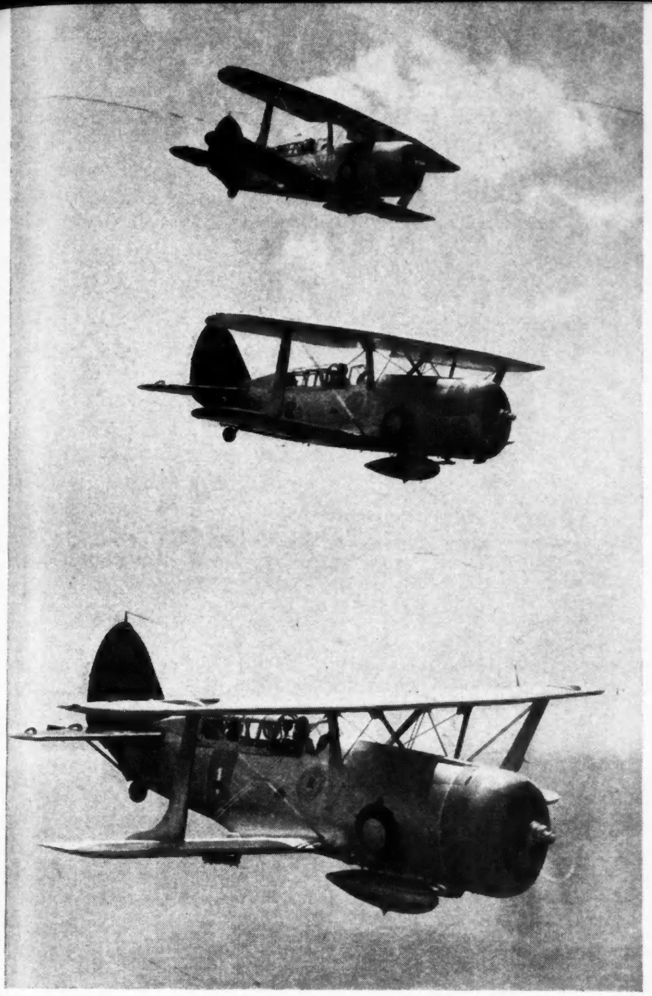
BY WARD GATES

In no other industry operating in this country is the effect of war conditions so apparent as in aviation and its subsidiary activities. Heavier than air ships were—as everyone knows—pioneered in this country but subsequently the leading exponents of the art were to be found abroad. Now, with the war demanding vast quantities of airplanes, the lead in aircraft production is returning home.

Within the relatively short space of two years, it has been conclusively demonstrated that a nation's security depends not so much upon its frontier defenses as upon complete mastery of the air above its principal areas of military and manufacturing activity. It is to furnish the "democracies"—and Russia—with the means for such defense and offense that we are committed, and at the same time to provide our own country with similar protection. Up to last October, the airplane manufacturing industry had made unbelievably great strides. But despite that fact, the ultimate goal of production is as yet only half gained.

Production of commercial planes will, of course, be relatively small. Some of the light private airships are still being manufactured for they are conceded to provide a certain amount of useful training but their quantity is limited and promises to be even more so as the several substitutes which have been found for critical materials themselves are relegated to the priorities list. Some of the small plane manufacturers have been able to secure a certain amount of sub-contract work from the larger plane builders and they should be able to survive the rush for military planes and be in a better than average position to return actively to their normal field after the emergency has subsided. The long term future is promising for such small plane manufacturers for the "air-mindedness" of the country will be at concert pitch. However, in the trying interim period, the best that can be expected of any of the small companies is that they survive with sufficient resources to take up their old interests when supplies are again available. At best, such companies offer only the most radical of speculative possibilities although there is no gainsaying that in some instances the rewards for the acceptance of the risk may be great.





Arnold from F P G

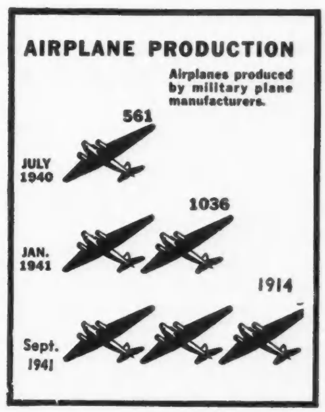
At the present moment, war planes and their equipment are of paramount importance. Production of such craft in this country, even just prior to the outbreak of the war, was confined solely to the very small orders of the Army and the Navy. According to recent information, allegedly obtained from O P M, production of military planes during the month of October achieved a rate of nearly 25,000 units yearly. On that basis, it is only a matter of simple arithmetic to determine that production for that month was approximately 2,083 units. If the estimate is correct then production for October was approximately 8 per cent higher than September when 1,914 units reportedly were shipped and better than double the output for the month of January, 1941, when accredited production was about 1,036 planes of all military types. If the same rate of progress is maintained by the American airplane industry, it is quite likely that estimates of 2,500 planes monthly by the end of this year will be an accomplished fact.

But, it will be recalled, some months ago the President set a goal of 50,000 planes yearly and as yet the half-way mark has been just barely reached. The same estimators who have apparently successfully predicted the eventual monthly level of production for this year, see the accomplishment of only 80 per cent of the projected journey achieved by the end of 1942. It is probable that these estimates err on the side of conservatism. Washington officials have estimated an eventual peak of production of not less than 75,000 planes yearly by the end of 1943 and the more optimistic believe the actual output will be closer to 100,000 planes yearly. Of these figures, approximately two-thirds would be combat and pursuit ships and the remainder, bombers of various sorts. Of the bombers between 30 per cent and 40 per cent would be divided between Consolidated ships and the Boeing, Flying Fortress type which has proven to be highly successful in high altitude bombing over Germany and France. Boeing would therefore be in receipt of a considerably larger batch of orders which would add materially to the unfilled order backlog of that company which was said to be in excess of $650,000,000 early last September. Consolidated also can expect much heavier orders.

Production Expanding

A recital of the actual number of planes produced does not tell the entire story. The types of planes being manufactured is a closer indication of the probable gross receipts of the manufacturers. For instance, about half of the present military plane output is of the trainer type, a relatively low powered and inexpensive job hardly designed to the specifications of a fighter or bomber. On the other hand, the same Boeing B-17, or Flying Fortress previously referred to, weighs approximately double the weight of the combined average of all other craft produced, and the cost per bomber unit is even greater per pound than that of the numerous other types of ship. Funds to carry out the program will be ample. O P M indicates that expenditures for all defense purposes will be in the vicinity of $52 billion during the 1943 fiscal year and much of this outlay will be for airplanes and equipment.

It will be possible to obtain many of the needed additional planes by a revision of production methods and programs. Earlier in the work, design of various planes changed rapidly. So rapidly were they revised that it was virtually impossible to inaugurate the production line method of manufacture made so famous by the automobile industry. Now, while changes continue to be made as new requirements develop from actual combat conditions, these changes are rarely basic and, even should they affect some major process, the resulting digression is soon compensated for without a too long interruption of output. Fittingly enough, William Knudsen — acknowledged as a world authority on machine production methods —has designed a production line for heavy



Aircraft Industry Expansion

	PLANT AREA	BACKLOG
Jan. 1, 1939	9,454,550 Sq. Ft.	$225,000,000
Jan. 1, 1940	13,115,421 Sq. Ft.	$675,432,475
Jan. 1, 1941	25,456,421 Sq. Ft.	$2,831,665,159
July 1, 1941	40,096,497 Sq. Ft.*	$5,136,759,573

*Plus 13,814,593 Sq. Ft. under constr.

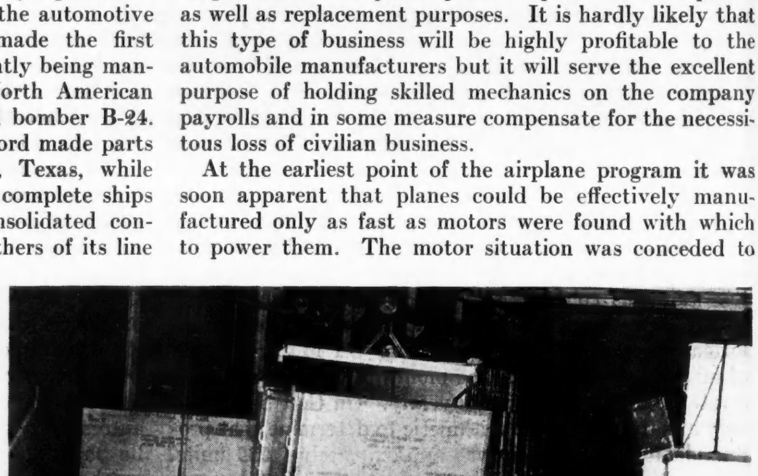
bombers. This plan is simply that the planes be assembled at Government owned—but privately operated—plants from parts fabricated by units of the automotive industry. The Martin bomber—they made the first bomber of post world war days—is currently being manufactured by this method as are the North American B-25 and the Consolidated four motored bomber B-24. The last named ship is assembled from Ford made parts at Tulsa, Oklahoma, and Fort Worth, Texas, while Ford will also build a certain amount of complete ships at Ypsilanti, Michigan. Of course, Consolidated continues to produce the same model and others of its line at the home plant in San Diego, California. It is interesting to note that most of the assembly plants, as well as those making the separate parts, are located at a substantial distance from either ocean.

By now, the Glenn L. Martin plant located at Omaha, Nebraska, should be in operation, manufacturing the first quota of the company's order for 1,200 Martin B-26 bombers, capable of flying nearly 400 miles per hour with a load of 2½ tons of bombs. The plant itself is owned by the Government but is being operated by Martin. A similar plant, owned also by the Government but operated by North American Aviation, should soon start production on 1,200 more planes of the same speed and carrying capacity as the Martin B-26. Output of heavy bombers is scheduled to reach 500 a month some time next year.

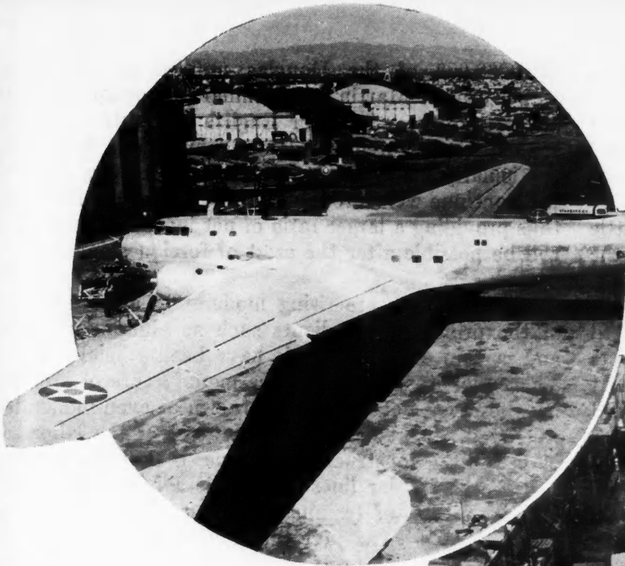
Prior to the war, it was confidently asserted by many "authorities" that our fabulously efficient automobile industry would be able to shift over to the production of airplanes almost over night. Subsequent experience has demonstrated the fallacy of such expectations. No doubt the automobile makers could, if given sufficient time for retooling and personnel training, eventually make a creditable showing in producing standardized airplanes, but among the materials of which we have only meager supplies, time is the scarcest. Given a job that could be done with a minimum amount of dislocation of existing facilities, the automobile industry has lived up to the most hopeful expectations. These jobs are mostly the manufacture of airplane motors and certain fuselage and structural parts. About 65 per cent of the parts entering into the assembly of the bombers previously mentioned are supplied by the automotive manufacturers and their subcontractors. Moreover, General Motors, with its Allison liquid cooled motor, Ford and Packard, making Rolls Royce and Pratt & Whitney engines, and Studebaker, with its soon to be realized production of Wright motors, are all substantial contributors to the power requirements of the plane program.

The current output of motors of horsepower ratings of 1,000 or better will be augmented later by the addition of a sizable output of Pratt & Whitney engines manufactured by the Chevrolet and Buick divisions of General Motors. Eventually, it is expected that the automotive industry will be contributing approximately 50 per cent of the power plants required for new planes as well as replacement purposes. It is hardly likely that this type of business will be highly profitable to the automobile manufacturers but it will serve the excellent purpose of holding skilled mechanics on the company payrolls and in some measure compensate for the necessitous loss of civilian business.

At the earliest point of the airplane program it was soon apparent that planes could be effectively manufactured only as fast as motors were found with which to power them. The motor situation was conceded to



Allison liquid cooled motors being crated for shipment at the end of a General Motors production line.



Left: A Douglas super bomber B-19

Below: Lighter Douglas Ships on the production line.

be the one major hindrance to expansion. Now the obstruction is rapidly being reduced by ever increasing supplies of motors. During the first part of 1939, airplane motor factories were busy but they were unable to produce more than 7,000 motors of various types yearly. This number was more than adequate for all needs at the time although woefully inadequate to meet even the beginning of the problem of supplying the needs of France and England, much less our own requirements. Curtiss-Wright and Pratt & Whitney—now controlled by United Aircraft—were then and are now the greatest producers of aviation engines in the country and between them account for more than 50 per cent of the high powered motors being produced. Their plans are further being utilized by a number of other manufacturers to increase the total output which is estimated to be at a rate in excess of 25,000 heavy duty units yearly at the present time. By the end of 1942 it is expected that production of aviation engines suitable for military purposes will be about double the present rate. All of which means that while the airplane motor makers are now producing about three times as many engines as they did just prior to the war, they will have to further expand their facilities by at least 100 per cent if they are not to constitute a "bottleneck"—in the most literal sense of the word.

Earnings Gains Checked by Taxes

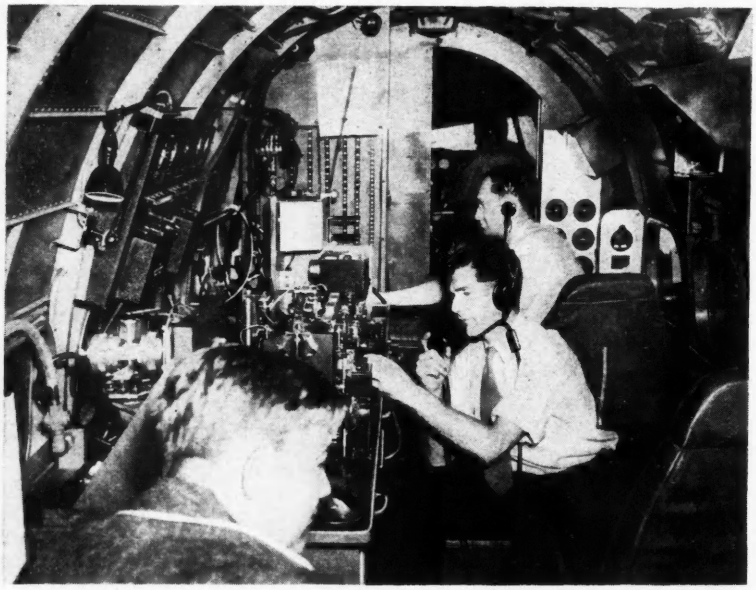
Motor building requires by far the greatest outlay for manufacturing equipment and materials and calls for a higher than average mechanical skill in manufacture. It is therefore not surprising that relatively few companies are actively engaged in their manufacture, that these companies are the owners of the majority of the basic patents covering more recent developments and that such manufacturers have great backlogs of unfilled orders on their books. But the possession of large orders for military equipment does not always spell inordinately large profits. High taxes and ever increasing labor demands serve as a ready retarder of any tendency of profits to rise from that source. As an illustration, Curtiss-Wright, the country's leading engine maker, had an unfilled order backlog amounting to the unprecedented figure of $1 billion only several weeks ago. Deliveries have been running almost 100 per cent ahead of a year ago when the total was $138,720,000 and earnings were equal to about $1.81 a share. Despite the fact that deliveries are practically doubled, earnings of $1.28 a share for the first half of this year were only about 60 cents greater than those of a year ago and for the full year it is anticipated that higher taxes and declining profit margins will hold the company's net down approximately to $2.50 a share or to about 38 per cent more than a year ago. But while profit margins will likely continue to become leaner, production will continue to mount with the result that the uptrend in earnings—established after the outbreak of the war—will be maintained, but at a moderated pace. The compensating factor in the Curtiss-Wright situation is that every plane manufactured for military purposes will require—on average—better than two motors, and there is actually no long term competitor now in sight save United Aircraft's Pratt & Whitney division and General Motors' Allison. One thing which favors the engine manufacturers over the manufacturers of the ships themselves is that the engine makers have

acquired enough experience to be able to estimate costs with sufficient accuracy to warrant the expectation of reasonable profits on future contracts and not be forced to have recourse to the limited profit contracts provided by the Government for those airplane manufacturers who require them.

The acceptance of limited profit contracts is of little significance beyond testifying to the caution of the managements in regard to various orders. For instance, Bell Aircraft, Douglas Aircraft and Grumman Aircraft—to mention but a few—do not disdain the limited profit clause although by no means all of their contracts are of this type. For example, take Bell Aircraft. At the beginning of last September, Bell's backlog of unfilled orders totaled $175,000,000 of which only about 40 per cent was on a limited profit basis. Douglas was probably the greatest exponent of the protective contract with about $530,000,000 of a total of $660,000,000 in unfilled orders at mid-September being on a guaranteed 6 per cent profit basis. Other prominent manufacturers of airplanes held varying proportions of their contracts under profit limitations, those with the widest experience in their immediate products preferring to take their chances with changes in labor and material costs in exchange for moderately better profit margins.

Of more importance to the profits of the airplane manufacturing companies is the fact that foreign orders—especially those placed by Great Britain earlier in the war—are beginning to run out. There were no limitations set on the actual profit margins accruing from such work and while they were never exorbitant—as judged by world war standards—they were nevertheless substantially larger than those which accrued from U. S. Government orders. Practically all of the airplane manufacturers received some British orders. For instance, about 20 per cent of Bell's unfilled orders, or $35,000,000, are for the British, about $65,000,000 of Boeing's recent $650,000,000 backlog, 25 per cent of Consolidated's total of $750,000,000 as of August 31, $35,0000,000 of the Douglas unfilled order backlog, 10 per cent of Martin's and similar proportion of almost all of the others were for English account. Deliveries against these foreign order accumulations have been particularly heavy during the last half of this year and will continue well through the first half of the next year, thus providing a larger ratio of net income to gross than will be possible after the crest of foreign shipments has passed.

Material costs are rising moderately although many of the principal ingredients such as aluminum, copper and certain other materials have been officially frozen. The major item of cost in the manufacture of airplanes has, however, not as yet been frozen or even moderately restricted. That cost is labor. Most of the labor employed in the construction of planes is skilled in particular lines and needs a fairly long period of training to make proficient workers. The investment in each trained worker is probably higher than in any other large industry but the meticulous care with which each operation must be done in order to insure the success of the whole does not permit any temporizing with the quality and skill of the workers employed. Union organizers have been quick to exploit this feature by continued demands for higher and yet higher wages. As a result of such demands, and others having to do only with intra-union affairs, considerable production has been lost from time to time through strikes in various large plants despite the apparent gravity of the situation. While the Administration has held forth at great length upon the need for every plane possible, it has taken no steps as yet to freeze wages or even to inhibit strikes in critical defense plants. However, such action will probably be forthcoming within a more or less



Sperry's flying laboratory where instruments are flight tested.

Monthly Engine Production . . .

(Estimated)

Each symbol represents 1,000,000 horsepower.

reasonable period of time and thus remove the greatest uncertainty in predicting aviation manufacturing costs of the future.

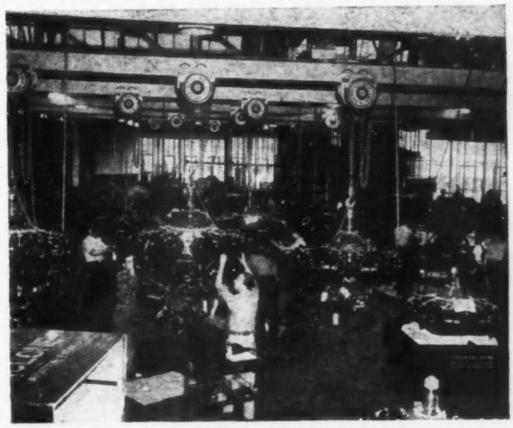
Prior to the emergency, any expansion of aircraft production facilities was financed by the companies involved in the project. Normally, with large amounts of working capital being constantly required to carry on the business, much of this financing was in the form of bank loans or public offerings of securities. But in order to obtain an output of planes in volume required by the Government, it was necessary to provide the manufacturers with the means of expanding facilities without recourse to the open market or credit agencies. The Government is providing the required expansion funds to the manufacturer, directly. The manner by which the plants are provided varies, although on the whole they amount to a subsidy provided the industry to stimulate the output.

Some of the new plants are—or will be—owned outright by the Government, although the manufacturer needing the added facilities will operate the additional facilities under a lease arrangement. In other instances, the company concerned will construct the building with its own funds or money borrowed from the R F C or a private agency and the Government will reimburse the individual making the expenditures, in five equal annual instalments. In case the latter means of financing is adopted, the Government takes title to the addition after the final payment has been made but the builder may recapture the property from the Government, if it is so desired, by payment of the depreciated value of the building. Such a policy is helpful to the future prospects of the manufacturer for if subsequent events make it desirable to continue production at a high rate after the termination of the emergency, a plant will be available for the purpose. If, on the other hand, conditions do not warrant a continuation of production at high levels, the manufacturer is not saddled with an unproductive unit as a drag on operating costs.

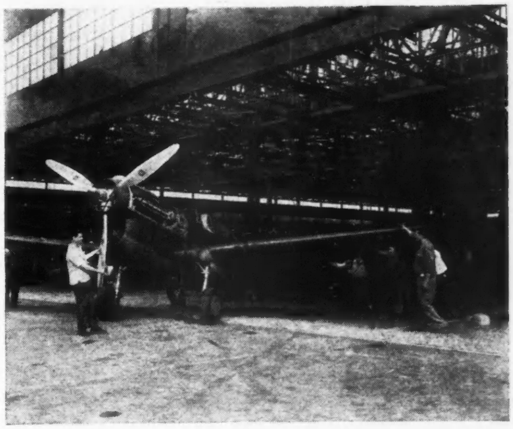
The Government's permission to accelerate amortization charges on emergency facilities has also been beneficial to the manufacturer and this, together with the Government practice of making progress payments for work on planes and equipment under construction, have rather amply provided an important share of the working capital necessities.

Taxes are as much of a problem for the aviation manufacturers as they are for any other enterprise of similar nature. Excess profits taxes are particularly so because of the sharply higher volume of business and the fact that in former years, profits—if any—were of only moderate proportions. Among the leading manufacturers there is no case in which the estimated exemption from excess profits taxes exceeds estimated 1941 earnings. For instance, Bell Aircraft is expected to report earnings of approximately $3.50 a share this year as compared with estimated exempt earnings of $0.71 a share. Boeing, due to the fact that it has a loss-carryover from last year, would be permitted to earn approximately $3,000,000 before applying excess profits taxes. Estimates of Boeing's earnings for this year are in the vicinity of $5 a share as compared with $0.35 a share a year ago.

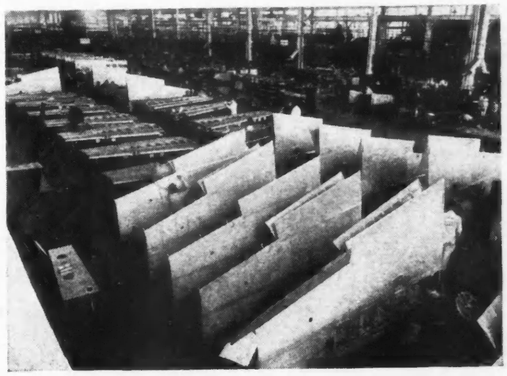
Brewster Aeronautical likewise has a carryover from last year and, accordingly, about $0.76 a share is exempt from excess profits taxes. Brewster's 1941 earnings will be approximately four times greater than the $0.96 a share reported for 1940. Consolidated Aircraft may be expected to earn about $5 a share with $0.83 exempt from excess profits tax. Douglas Aircraft may report as much as $25 a share with (*Please turn to page 227*)



Curtiss-Wright "Cyclones" nearing completion. Note overhead conveyors.

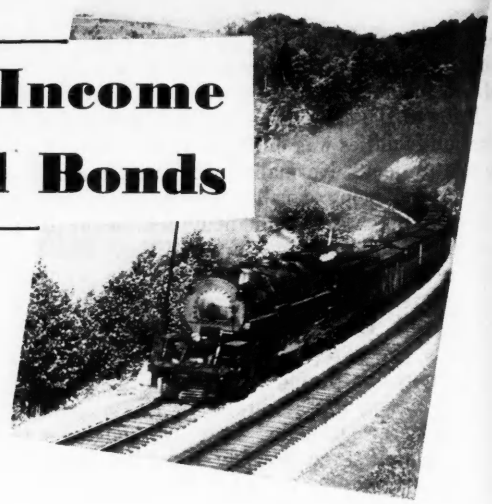


A fast Curtiss-Wright Aircraft job coming out to be tested.



Many of Bell's parts are prefabricated before they reach the assembly line.

Outstanding Profit-Income Opportunities in Rail Bonds



Selected from "contingency" issues of reorganized systems

BY J. S. WILLIAMS

WHILE the uncertainties involved in rail investments are familiar to all, the spectacular recovery in earnings and operations over the recent past has stimulated investor and speculative interest in this section of the list and particularly in certain securities of roads which through reorganization, completed or pending, have been recapitalized on the basis of recent years' earnings.

Following the widespread bankruptcies and receiverships which accompanied the 50% decline in revenues by 1932, and eventually involved about one-third of the total railroad mileage of the country, it was not uncommon to hear that the rails were through and were rapidly approaching the status of the horse and buggy in our transportation system. Happily for the rail investor, such dire predictions have not materialized and while earnings have never reattained pre-depression levels, it is not currently due to any dearth of traffic. More than any other single factor, the development and increasing application of the internal combustion engine since the early '20's resulted in the decline of revenue tonnage handled by the rails in relation to industrial production and while this situation can hardly be regarded as anything but permanent, the traffic inroads from this source promise to be less pronounced in the future, and government regulation of non-rail competitors should gradually restore greater stability to the transportation field as a whole. In viewing the relative importance of the railroads currently, it is of interest to note that ton-miles handled this year should come close to equalling the previous best year and that some 75% of the country's freight is now moving over the rails, despite the growth of competing agencies.

In approving plans of reorganization, however, the I C C has assumed that the railroads are facing a permanent level of lower than former earning power and that only during periods of relative prosperity could the old fixed debt be comfortably supported. To meet this problem, the income bond was widely adopted as a device for settling in part the claim of the old senior liens and thereby placing that part of the debt structure on a contingency basis. Since, in most instances, preferred and common stocks were also issued in settlement of the old bondholder claims, the total new debt including income bonds is far below the amount of fixed debt previously outstanding. Most of the plans now operative also provide for gradual retirement of the total debt through the operation of sinking funds and for the creation of improvement and betterment funds to be applied from gross income at a fixed percentage. Since these plans were formulated prior to the heavy traffic volumes of the arms program, fixed charges were for the most part reduced to a level where coverage would be indicated even in the worst years of the past depression. The significance of this to the income bonds may be readily appreciated by the fact that in some instances income bond interest, after capital and sinking funds, even in the none too prosperous years 1939 and 1940, was covered by a fair margin and the present year is expected to show such charges earned several times over in certain cases. Since payment of interest on the incomes is mandatory if earned, the issues discussed below seem to offer better than average appeal in the present setting. Although this type of bond has often been likened to a preferred stock, there is one important difference aside from the mandatory payment of interest if earned and that is the position in the capital structure from a tax standpoint. Whereas preferred stock dividends come after the computation of the Federal income taxes, income bond interest is deductible before figuring the tax liability and this obviously is a considerable advantage in a period of rapidly rising tax levies such as the present.

Chicago Great Western Railway 4½s, 2038

More or less typical of the newly created railroad income issues are the Chicago Great Western 4½s, maturing in 2038. These bonds were issued in connection

with the termination of bankruptcy late in February of the current year following six years of trusteeship. Under the terms of the plan, fixed charges were sharply reduced from around $1,825,000 to $934,000 fixed and $274,000 contingent interest on the income bonds. In addition, a capital fund was established for additions and betterments and as a reserve to pay interest on the new first mortgage bonds in any year when earnings do not permit full coverage. This fund is derived by setting aside from earnings an amount equal to 2½% of gross revenues up to a maximum accumulation of $1,500,000. The capital fund comes ahead of income bond interest payments, but it does constitute an element of strength even for the junior bondholders. In the case of this road, the effective date of the reorganization plan was set at January 1, 1938, and upon completion of the plan, earnings after all prior charges including the capital fund and sinking fund for first mortgage bonds were sufficient to clear up all interest accruals on the income issue for the three years to April 1, 1940.

During the years of trusteeship, the property was placed in first class shape and, according to the management, expenditures so far as deferred maintenance is concerned will be much less in the future than in the period of rehabilitation. While this road is primarily agricultural, it is nevertheless enjoying a wide margin of improvement in both earnings and operations. Thus gross revenues for the nine months ended Sept. 30 amounted to $15,777,532 as compared with $13,257,786 a year ago, and much of this increase in revenues is available for the payment of income bond interest. As a matter of fact, net income after all charges, including interest on the income bonds, totalled $1,301,732, as compared with a loss after charges of some $585,841 for the like period of last year. In this connection it is of interest to note that the closing three months of the year usually provide some 45% of net operating income, and if this proves to be the case this year, the coverage of income bond interest should be several times over. These bonds are outstanding in the amount of $6,113,600, interest being payable if earned on April 1 of each year. Whether or not earned such interest is cumulative up to a total of 13½% and no more. With interest requirements on the issue amounting to only around $274,000 annually, there would seem to be little room for doubt as to payment of full interest of 4½% on April 1, next, lending unusual appeal to the bonds at present prices of around 38.

Chicago & Eastern Illinois 5s, 1997

Also offering interesting speculative possibilities at the present time are the Chicago & Eastern Illinois R. R. incomes maturing in 1997 and outstanding in the amount of $14,455,000 following $11,000,000, approximately, of first mortgage bonds, all of which are held by the R F C as collateral for loans. This road has the distinction of being the first major reorganization to be completed under section 77 of the Bankruptcy Act. Under the plan, holders of the old general mortgage bonds received 50% in new income bonds and 50% in new preferred stock, as well as four shares of common. As now constituted, capitalization is so designed that the road should have little difficulty in covering all fixed requirements even during periods of depression. The reduction in fixed charges as a result of reorganization was from a figure exceeding $2,100,000 to the present level of around $650,000. Sinking funds are operative on both the first mortgage and income issues designed to substantially reduce these issues over future years. An additional potential reduction in debt is provided by the conversion feature on the income bonds whereby these may be exchanged for common at any time at the holder's option on the basis of $25 in bonds for one share of common. Unlike the Chicago Great Western incomes, these bonds are non-cumulative, although interest must be paid to the extent earned on April 1 of each year from earnings of the preceding calendar year. Earnings for 1940 permitted payment of ⅞% in March of the current year and with the present level of operations, the full 5% to which the bonds are entitled is the indicated disbursement for early next year which would mean a return to the purchaser at present level of 26 of around 15%.

Representative Reorganization Railroad Income Bonds

	Indicated 1941 Times Earned	Interest Accrual By Year End	Recent Price
Baltimore & Ohio 4½s, 1960	4.2	14.7%	33½
Boston & Maine 4½s, 1970	2.3	6.7	37
Chicago & Eastern Illinois 5s, 1997	1.8	5.0	26½
*Chicago & Northwestern 4½s, 1999	2.4	6.8	24
Chicago Great Western 4½s, 2038	5.0	4.5	38
*Chicago, Mil , St P & P A 4½s, 2014	5.5	13.5	42½
*Erie 4½s 2015	4.0	9.0	55½
Gulf, Mobile & Ohio 5s, 2015	5.6	5.0	46½
*Missouri Pacific A 4s, 2005	12.0	8.0	35
*Norfolk Southern 5s, 2014	1.2	5.0	24

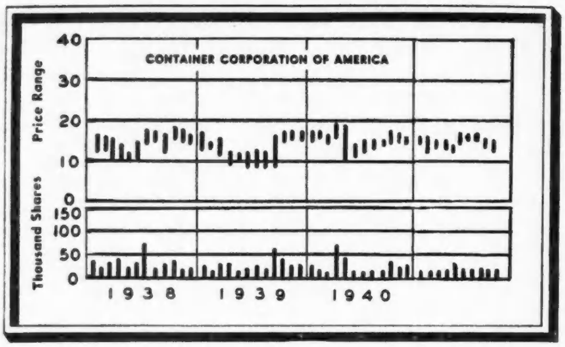
*—Bonds traded on "when issued basis" representing roads with court approved plans but reorganization of which remains to be completed.

Boston & Maine Railroad 4½s, 1970

Unlike the previously discussed income issues, the Boston & Maine income mortgage 4½s were issued in a voluntary capital readjustment plan effected last year. The bonds are outstanding in the amount of $47,995,500, interest being cumulative at 4% and payable to the full extent earned. Accruals at the close of last year amounted to around 2.2% and it is indicated that all arrears together with full accrual for the current year will be paid next May 1. This plan also includes a capital fund and other restrictions designed to strengthen the position of the road over a period of years. Earnings have been in a sharp recovery movement as a result of the greatly increased industrial *(Please turn to page 223)*

Eight Common Stocks In Favored Positions

CONTAINER CORP. OF AMERICA



BUSINESS: Container Corp. is one of the leading manufacturers of paper containers, boxes and cartons which it manfactures from paper products of its own mills. Under normal conditions, the output of paper board from seven controlled mills leaves an ample supply of board for sale to others. Under prevailing conditions, however, a larger proportion is being consumed in the company's own plants. Other paper products used in making containers are also manufactured although it is only in box board that any sizable surplus exists. Pulp supplies are adequate for all immediate needs. Customers include practically every well known processor of foods, drugs and other products customarily packed or shipped in paper containers. Defense work includes targets as well as containers for many uses.

FINANCIAL POSITION: Net sales in the first nine months of this year were 39 per cent greater than those of a year ago. Production facilities have been expanded to take care of the rise in demand but the increase in sales for the period was at least partially ascribable to higher unit prices for the products. Net income for the first nine months, however, failed to reflect the increases in billings. Actually, net profits—after taxes—were $1,488,222 or $1.90 a share as compared with $1.95 a share for the same period of 1940. Results of the third quarter were better than those of the two previous three months periods. In the third quarter, dollar sales were 62 per cent greater than a year ago and profits of $0.85 a share were approximately 7.3 per cent larger than in the third quarter of 1940. In March, the stockholders authorized the issuance of 50,000 shares of preferred stock although no public offering has as yet been made. The financial position is strong and improving. In the first nine months of this year, company indebtedness has been reduced by $500,000.

OUTLOOK: There is an actual shortage of paper containers which indicates a continued demand of large proportions for such manufacturers as are able to produce them. Control of paper board and pulp supplies gives Container Corp. an important advantage.

MARKET ACTION:	Container Corp., of Amer.	Market Average	Container's moves in relation to avge.
'37 high to '38 low	74% decline	64% decline	15% wider
'38 low to '38 high	82% advance	76% advance	8% wider
'38 high to '39 low	48% decline	34% decline	41% wider
'39 low to '39 high	89% advance	44% advance	102% wider
'39 high to '40 low	43% decline	45% decline	4% narrower
'40 low to '40 high	107% advance	67% advance	60% wider

Average volatility on 6 moves 37% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 13⅜. Rising sales volume should offset tax increases with a margin to spare.

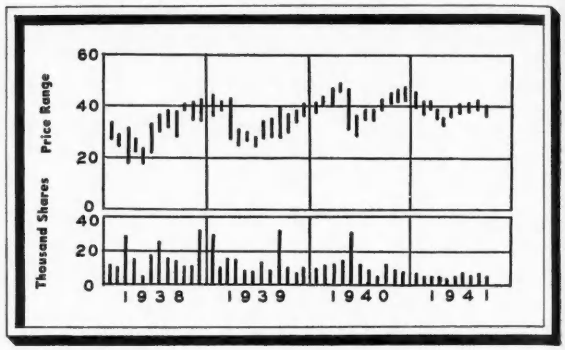
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$18.3	$1.1	RC	RC	RC
1935	20.2	1.2	$1.89	....	23⅛-22
1936	22.5	1.3	1.97	$1.25	26¼-15¾
1937	25.3	1.8	2.28	1.20	37⅜-10¾
1938	18.7	....	0.04	0.30	17¾- 9¾
1939	24.1	1.4	1.85	0.25	17¼- 9⅛
1940	30.5	2.2	2.85	1.50	19½- 9⅞
1941 (Est.)	....	....	2.75		*16½-12½

RC—All stock reclassified after 1934. *—To date.

Thumbnail Stock Appraisal

FAIRBANKS, MORSE & COMPANY



BUSINESS: Fairbanks, Morse & Co. manufactures internal combustion engines, electric motors, electrical equipment, scales, automatic fuel stokers, water supply systems, various types of heavy machinery and Diesel engines. In normal times, Diesel engines furnish about 25 per cent of the company's total sales volume, although their importance has increased vastly since the outset of our preparedness activities. Diesel engines, made in a wide range of power for numerous purposes, will probably dominate the company's business for the next several years, at least. F-M Diesels are standard equipment for U. S. Navy vessels while they are finding increasing application as motive power for tanks. Foreign sales have, in the past, accounted for about 10% of the company's total sales volume. Because of the removal of most European products from the markets of the world, Fairbanks' foreign sales should be on the increase.

FINANCIAL POSITION: There are currently outstanding less than 600,000 shares of capital stock which is outranked only by $3,355,000 of debentures due in 1956. Despite the fact that the total amount of the debentures have been reduced by nearly $2,000,000 since 1939, cash holdings have been maintained at a high level and at the date of the last balance sheet $3,698,145 in cash alone compared very favorably with total liabilities of $6,409,228. Other current assets raised the ratio of net current assets to better than 3-to-1. Half year earnings indicated the interesting fact that Federal taxes would require considerably better than 50 per cent of net profit after all other charges. Provisions for such taxes were $1,720,000 as compared with net profit available for common stockholders of $1,382,499. Nevertheless, net earnings for the first 6 months of 1941 were equal to $2.30 a share of common stock as compared with $1.58 a share in the same period of 1940.

OUTLOOK: A new plant to be constructed to handle U. S. Navy orders will triple the present output of Diesel engines. Demand for other products continues strong.

MARKET ACTION:	Fairbanks, Morse	Market Average	Fairbanks, Morse moves in rel. to av
'37 high to '38 low	73% decline	64% decline	14% wider
'38 low to '38 high	121% advance	76% advance	59% wider
'38 high to '39 low	44% decline	34% decline	29% wider
'39 low to '39 high	83% advance	44% advance	88% wider
'39 high to '40 low	33% decline	45% decline	27% narrower
'40 low to '40 high	67% advance	67% advance	even

Average volatility on 6 moves 27% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 37. A substantial extra dividend is in prospect for the year end.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$13.2	$0.6	$0.28	....	18¾- 7
1935	18.2	1.5	2.47	....	39½-17
1936	26.8	2.3	3.43	$1.25	71¾-34¾
1937	30.6	2.1	3.45	2.00	71⅞-23½
1938	21.0	0.6	0.83	0.25	43 -19½
1939	24.5	2.5	4.12	1.50	43⅞-24
1940	29.6	2.7	4.59	3.00	49¼-29½
1941 (Est.)	....	....	6.00	*2.00	*45½-34

*—To date.

Thumbnail Stock Appraisal

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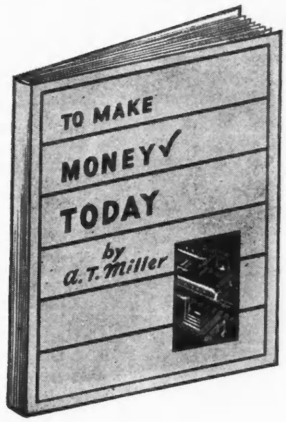

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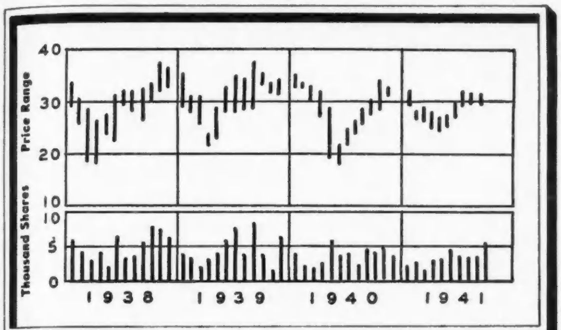
Eight Common Stocks In Favored Position

FOOD MACHINERY CORP.



BUSINESS: True to its name, Food Machinery Corp. makes a wide line of machines and devices for the processing and preserving of foods. Fruit packing and milk sterilizing equipment have the greatest relative importance in the business since they are rented to the users rather than sold directly and are thus productive of a continuous income of some size. Canning equipment of special design, automotive service station equipment, spray and rotary pumps are also manufactured. Much of the equipment is used in national defense but the unique item being manufactured for the Government is an amphibian tank. This vehicle, 200 of which were ordered by the U. S. Navy last year, was developed by the company from the experiments of an engineer working on flood control and while it was a radical departure, has proven successful in operation.

FINANCIAL POSITION: On December 1, all of the outstanding 20,000 shares of $100 par value, 4½ per cent preferred stock will be retired at a price of 103 and accrued dividends. This is the first step toward refinancing in order to facilitate expansion of equipment made necessary by the strong influx of business resulting from national defense. At the present time, unfilled defense orders total approximately $6,000,000, most of which will be billed in the current fiscal year which ends next September. Net earnings before taxes for the fiscal period just ended were probably at new high levels but the net applicable to common stockholders was substantially reduced by heavier taxes.

OUTLOOK: There is no immediate prospect of a decline in demand for the company's normal line of products and there has been a marked increase in the utilization of the rented or licensed items which has added substantially to revenues and should continue to do so.

MARKET ACTION:	Food Machinery Corp.	Market Average	Food Machinery moves in rel[illegible]. to av.
'37 high to '38 low	70% decline	64% decline	9% wider
'38 low to '38 high	104% advance	76% advance	37% wider
'38 high to '39 low	43% decline	34% decline	26% wider
'39 low to '39 high	79% advance	44% advance	80% wider
'39 high to '40 low	51% decline	45% decline	13% wider
'40 low to '40 high	93% advance	67% advance	39% wider

Average volatility on 6 moves 34% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 30½. There is not as yet any intimation as to what form the proposed new financing will take although there are initimations that it may be in the form of a long term, low interest bearing obligation which will not permanently dilute stockholders' equity in earnings.

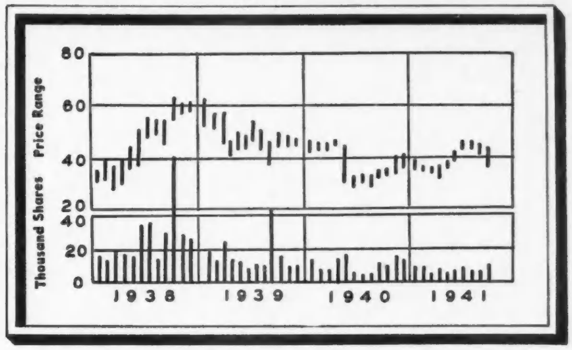
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$5.1	$0.5	$2.46	....	21⅝-10½
1935	6.5	1.0	5.16	$0.75	39¼-39
1936	7.7	1.4	3.33	0.87	48½-32
1937	10.7	1.9	4.11	3.50	58 -27
1938	6.6	0.8	1.55	1.375	37¼-18
1939	6.4	1.2	2.32	1.375	37½-21
1940	8.7	1.7	3.70	1.50	35 -18⅛
1941 (Est.)	....	....	*3.75	*1.40	32½-24

(s)—Year ends September 30. *—To date.

Thumbnail Stock Appraisal

LONE STAR CEMENT CORPORATION



BUSINESS: Lone Star Cement Corp. is the largest of the independent cement makers of this country. It has a production capacity of approximately 2,000,000 barrels of cement monthly and of this amount roughly one-third is located in Latin American countries. The foreign plants are particularly profitable since cement in those countries is normally an imported item. The domestic plants—10 in number—follow the usual custom of the trade by being located at close proximity to centers of heavy consumption. They are widely scattered throughout the country. A plant modernization and expansion plan was finished in 1940; just in time to take advantage of the excellent market for cement occasioned by defense construction. Formerly, the Atlantic Seaboard plants were forced to contend with imported cement but since the outbreak of the war, such imports have been negligible and Lone Star has had a favored position in this intensely active industrial area.

FINANCIAL POSITION: Net income for the first nine months of this year—before taxes—was nearly $6,000,000. After the setting aside of appropriate reserves for taxes, however, there remained only $2,908,358 available for the shareholders. This was equivalent to $3.07 a share but compared very favorably with $2.37 a share reported for the same months of the previous year. Sales have been showing substantial quarterly gains so far this year and it is probable that they will continue upward through the balance of the fourth quarter. The company's cash position at the date of the last report showed $8,800,000 or more than ample for all corporate purposes. The net current asset ratio was approximately 3½ to 1.

OUTLOOK: The cement industry has always been heavily overcapacitated but at all times, Lone Star Cement has made a better than average showing. There is no shortage of raw materials and given ample supplies of fuel, no difficulty should be found in maintaining sales at high levels and profits of satisfactory proportions.

MARKET ACTION:	Lone Star Cement Corp.	Market Average	Lone Star's moves in relation to avge.
'37 high to '38 low	65% decline	64% decline	1% wider
'38 low to '38 high	143% advance	76% advance	88% wider
'38 high to '39 low	39% decline	34% decline	14% wider
'39 low to '39 high	61% advance	44% advance	39% wider
'39 high to '40 low	53% decline	45% decline	17% wider
'40 low to '40 high	60% advance	67% advance	11% narrower

Average volatility on 6 moves 24% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 40¼. There are neither bank loans nor funded obligations prior to the 948,597 shares of capital stock currently outstanding.

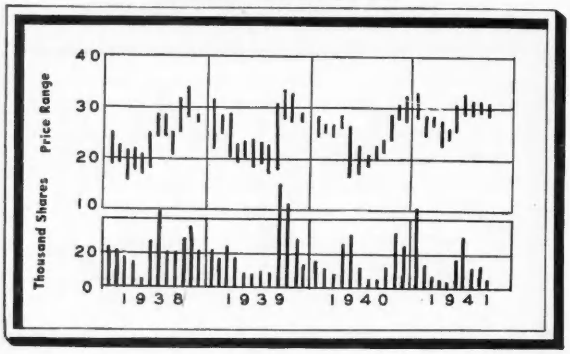
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$13.6	$0.7	$1.06	$0.25	37¾-18⅞
1935	14.1	1.0	1.67	1.00	36⅞-22⅞
1936	18.5	2.9	3.02	2.50	61⅞-35½
1937	21.3	4.1	4.24	3.75	75¼-31½
1938	20.4	2.9	3.25	3.00	63¼-26
1939	21.1	3.6	3.69	3.25	62 -38⅛
1940	22.7	3.5	3.57	3.50	46½-29
1941 (Est.) *to-date.	......	....	4.25	*3.00	45½-35

Thumbnail Stock Appraisal

Eight Common Stocks

MACK TRUCKS, INC.



BUSINESS: The name Mack Truck has become a synonym for anything of size and power beyond the ordinary and this characterizes the principal product of the company. Mack is making vehicles of many kinds for the U. S. and British governments and continues to manufacture a line of commercial trucks as well. However, it is only natural that civilian business has become of secondary importance from the standpoint of production. Because of the military nature of most of the work on hand, production statistics are no longer made generally available. Yet it is freely indicated that deliveries of all products during 1941 will make a new record for the company. The backlog of unfinished orders is likewise said to be at record high levels although the actual figures are not divulged. Due to high civilian demand and inadequate supplies of vehicles, conditions in the commercial sales field have improved materially even if competition continues to be almost as keen as ever.

FINANCIAL POSITION: The general high rate of activity is well attested to by nine months earnings figures. In the first three quarters of this year, Mack reported net income of $2,715,967 after setting aside $2,865,000 for tax payments. This compared with a net of $1,167,855 in the same period of last year and was equal to $4.54 a share of common stock for the latest reported period as compared with $1.95 a share a year ago. Nearly half of this year's net was earned in the third quarter, indicating that deliveries are increasing sharply. It is probable that the final quarter of the year will make an equally good showing although it is likely that the total will be reduced by the amount necessary to make up for taxes that were not as yet definitely known during the first 9 months.

OUTLOOK: Approximately 75 per cent of the current orders are for military vehicles which will receive priority assistance. The commercial business is also regarded as being necessary to defense and should thus also be expedited.

MARKET ACTION:	Mack Trucks, Inc.	Market Average	Mack's moves in rel. to mkt. avge.
'37 high to '38 low........	74% decline	64% decline	15% wider
'38 low to '38 high........	103% advance	76% advance	36% wider
'38 high to '39 low........	44% decline	34% decline	30% wider
'39 low to '39 high........	87% advance	44% advance	98% wider
'39 high :o '40 low........	50% decline	45% decline	11% wider
'40 low to '40 high........	87% advance	67% advance	30% wider

Average volatility on 6 moves 37% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 32½. The longer term prospects are enhanced by the trend toward specialized trucks and the obsolescence resulting from defense priorities.

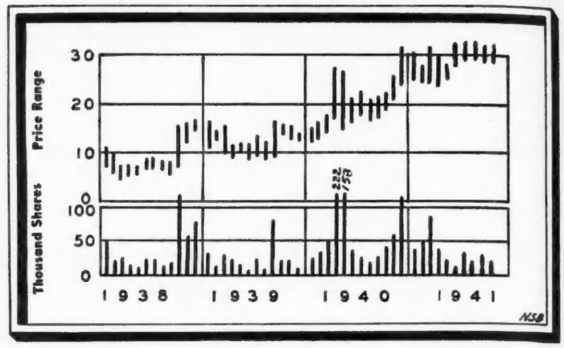
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934............	$18.3	$0.02	$0.03	$1.00	41¾-22
1935............	20.2	d0.40	d0.66	1.00	30¾-18⅝
1936............	30.8	1.44	2.41	1.50	49¼-27⅜
1937............	34.2	1.28	2.15	1.25	62¼-17⅜
1938............	26.4	d0.93	d1.56	0.25	32½-16
1939............	35.6	0.68	1.14	0.50	33¾-18
1940............	44.1	1.81	3.02	1.50	31¾-17
1941 (Est.)........	....	....	6.00	*3.00	*33⅜-23⅝

*—To date. d—Deficit.

Thumbnail Stock Appraisal

NEW YORK SHIPBUILDING CO.



BUSINESS: New York Shipbuilding Co., with one of the largest of the world's shipyards located at Camden, N. J., was once the leading builder of commercial vessels of all types. Now, however, the facilities of this great yard are being mostly used for the construction of navy craft including cruisers and lighter naval vessels. The yard also does a considerable amount of repair work. The present schedule includes not only cruisers (19) but also a sea-plane tender and one battleship. Building facilities are being expanded with the assistance of the Government but the yards are able to fabricate more of their own materials than almost any other in this country. On September 30, undelivered contracts were estimated to have a gross value of $564,114,700. Since they were practically at the same level in June it is believed that new work has accrued at a pace which would offset deliveries.

FINANCIAL POSITION: Following the retirement of the preferred stock last year, and the recent redemption of about $2,400,000 in bonds, there are about 325,000 shares of preference stock and 175,000 shares of founders stock currently outstanding. The preferred stock was retired through the medium of a $2,400,000 bank loan which has since been liquidated. The heavy demand for vessels has resulted in a conspicuous firming of New York Shipbuilding's financial condition. During the past three years, increasingly better business has permitted the elimination of a corporate deficit of $808,356 in 1938 and the substitution of an earned surplus of $1,260,969 by the close of 1940. Since that time, in spite of the elimination of bank loans and funded obligation, it is believed that the financial condition of the company has been even further improved, especially in liquid assets.

OUTLOOK: Whether or not the war continues and despite who might prove to be the eventual victor, the ship building industry is conceded to have a long period of activity ahead. Most yards have as much as ten years' work on hand despite increased facilities.

MARKET ACTION:	N. Y. Shipbldg. Corp.	Market Average	N. Y. Ship's moves in relation to avge.
'37 high to '38 low........	69% decline	64% decline	8% wider
'38 low to '38 high........	244% advance	76% advance	221% wider
'38 high to '39 low........	47% decline	34% decline	38% wider
'39 low to '39 high........	97% advance	44% advance	120% wider
'39 high to '40 low........	27% decline	45% decline	40% narrower
'40 low to '40 high........	139% advance	67% advance	107% wider

Average volatility on 6 moves 76% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 28½. The coming year should witness a doubling of output by the company.

Long-Term Record

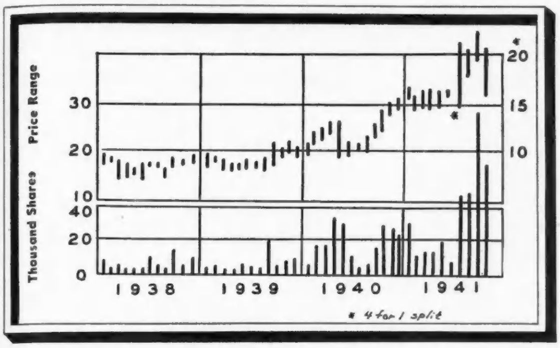
Year	Gross Billings (millions)	Net Income (millions	Net Per Share x	Dividends x	Price Range p
1934............	NF	d$0.3	d$0.80	....	22⅞- 9⅛
1935............	NF	d1.4	d3.11	....	16⅛- 6⅛
1936............	$14.1	0.4	0.54	....	15⅝- 9⅛
1937............	13.0	d1.4	d2.99	....	15⅜- 3
1938............	11.1	0.5	0.82	....	16⅜- 4⅝
1939............	25.7	0.9	1.61	....	17 - 8⅝
1940............	43.3	2.3	4.54	$1.00	31¾-13⅛
1941 (Est.)........	....	....	6.00	*3.00	*35 -24⅛

xBoth issues. p—Participating. NF—Not available. d—Deficit. *—To date.

Thumbnail Stock Appraisal

In Favored Position (cont'd)

SAVAGE ARMS CORP.



BUSINESS: Savage Arms has long been known to sportsmen as a manufacturer of high quality non-military arms. In additioin, considerable business was built up in washing machines and other household equipment. During the last war Savage built Lewis machine guns upon which the company had the patent rights but the gun has since been outmoded. Now, Savage is busily engaged in making Thompson (Tommygun) machine guns, military ammunition, Browning machine guns and Lee-Enfield rifles. The last item is for the British while the remainder are mainly for our own Government. Production of household equipment and other articles has steadily been reduced in order to free production capacity for military orders. The exact operation figures are not being given out as they are considered to be a military secret. However, it is said that all plants are operated at peak capacity with little sign of a let-up.

FINANCIAL POSITION: Last May, the common stock was split 4 for 1 and there are now 670,860 shares of stock outstanding. In the first nine months of this year, Savage Arms earned $3.60 a share on the new stock as compared with $0.85 a share for the same number of shares in the comparable period of 1940. War orders have materially improved the financial position of the company. At the latest report date cash alone was reported at $3,697,663 or more than 4 times greater than in the previous year and, despite the sharp gain in the volume of business, accounts receivable were only $386,464 or less than $120,000 greater than a year before. Net current asssets of 2,600,000 indicated ample working capital for the company whose production capacity had not been completely utilized since the days of the first World War. Sales, naturally, will be at new record high levels for some time to come.

OUTLOOK: Until the emergency is passed, Savage Arms should continue busy in supplying the needs of the armed forces of this country and its allies. After the war, there will be a large replacement business in household equipment and sporting arms.

MARKET ACTION:	Savage Arms Corp.	Market Average	Savage's moves in relation to avge.
'37 high to '38 low	67% decline	64% decline	4% wider
'38 low to '38 high	125% advance	76% advance	64% wider
'38 high to '39 low	45% decline	34% decline	32% wider
'39 low to '39 high	114% advance	44% advance	159% wider
'39 high to '40 low	26% decline	45% decline	42% narrower
'40 low to '40 high	153% advance	67% advance	128% wider

Average volalility on 6 moves 58% greater than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 18¾. The capitalization is still small enough to permit strong earnings leverage.

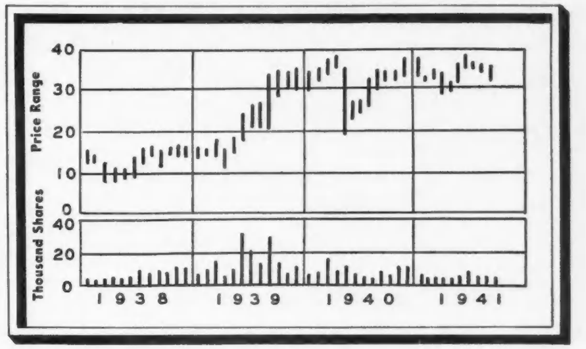
Long-Term Record

Year	Net Sales (millions)	,Net Income (thousands)	Net Per Share A	Dividends A	Price Range
1934	NF	$27	$0.02½	....	....
1935	$2.6	102	0.14	....	....
1936	3.3	246	.38	$0.25	17⅞-11
1937	4.0	457	.68	.38	27½-11
1938	3.4	60	0.09	.06	19¾- 8¾
1939	4.1	349	0.52	.31	23 -10¾
1940	NF	1,028	1.53	1.00	43 -17
1941 (Est.)	....	....	4.50	4.31¼	*23 -12⅜

NF—Not available. A—Adjusted to 4 to 1 split. *—To date.

Thumbnail Stock Appraisal

SPICER MANUFACTURING CO.



BUSINESS: Spicer Manufacturing Company's principal business is the making of heavy duty transmissions and propeller shafts for the automotive industry but they have found increasing application in the manufacture of trucks and tanks for military purposes. So great has been the demand from the Government that there has been no let down in production despite the fact that commercial business has declined sharply in recent months. Plant facilities have been recently expanded to accommodate the increased volume of business and at least one subsidiary has acquired the facilities of other manufacturers through merger. Sharply higher tank production has resulted in an increase of 50 per cent in Spicer's sales and is expected to go considerable higher as tank production reaches its full stride. At the present time, more than 80 per cent of the company's facilities are employed in defense work.

FINANCIAL POSITION: Last February, Spicer borrowed $1,000,000 from the banks to be repaid serially by 1946. Half of this amount was for expansion purposes while the remainder was used for the replenishment of working capital and other corporate purposes. About 100,000 shares of preference stock are the only other capital obligation ahead of the 300,000 shares of common stock. At the date of the latest available report, the company's financial position was satisfactory with working capital of about $4,000,000 and cash items alone approximating total current liabilities. The August 31 fiscal year end, shielded 1941 earnings from the Federal tax increase, although in the current year the full impact will apply. Accordingly, while business will probably continue to improve, earnings will not show the same rate of gain as they have in the more recent past. Nevertheless, they should continue to be satisfactory.

OUTLOOK: As long as defense work continues, Spicer will have more than enough business to attend to. After the emergency has passed it is probable that the company will resume its old routine of supplying automotive needs which should be large due to deferred replacements of the defense period.

MARKET ACTION:	Spicer Mfg. Co.	Market Average	Spicer's moves in relation to avge.
'37 high to '38 low	49% decline	64% decline	30% narrower
'38 low to '38 high	120% advance	76% advance	60% wider
'38 high to '39 low	37% decline	34% decline	8% wider
'39 low to '39 high	121% advance	44% advance	175% wider
'39 high to '40 low	45% decline	45% decline	even
'40 low to '40 high	104% advance	67% advance	55% wider

Average volatility on 6 moves 7% less on declines and 96% greater on advances than the M. W. S. index of 290 common stocks.

COMMENT: Recent price 36. The hydraulic torque converter which permits car operation without gear shifting is a Spicer product.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	NF	$0.67	$1.38	....	....
1935	NF	0.63	1.40	....	....
1936	$13.6	1.49	4.26	3.00	37 -13⅜
1937	15.1	1.29	3.61	2.00	35 -10
1938	10.2	.30	0.29	0.50	17½- 7¾
1939	10.4	1.56	4.49	2.00	34⅜-11
1940	18.9	2.12	6.36	2.50	38¾-19
1941 (Est.)	....	....	8.50	*3.00	*38½-27½

A—Year ends August 31. *—To date. NF—Not available.

Thumbnail Stock Appraisal

FOR PROFIT AND INCOME

Oils

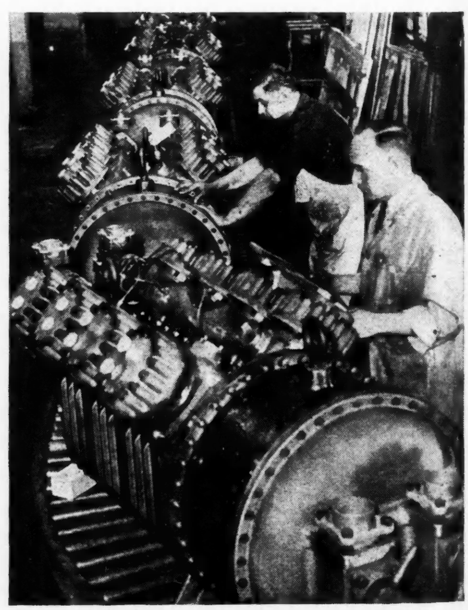
During the recent downward drift of the market, shares of leading oil companies displayed conspicuous resistance to the decline. The superior market performance of this group reflects the presence of several highly favorable factors in the oil prospect. Sales this year will set a new high record; profits have risen sharply; profit margins have widened as a result of improved prices; and cash dividends by the oil industry this year will not fall much short of the record 1937 level. Based on the most recent interim reports of 25 leading oil companies, profits were running at a rate about 38 per cent higher than a year ago. In a position, therefore, to accord stockholders more liberal treatment, dividends promise to be at least 20 per cent larger than in 1940. The end of the year will find the industry in a vastly improved statistical position, with no surplus of either crude or refined products hanging over the market to threaten the price structure. All branches of the industry are headed for new records with the greatest gain, as might be expected, shown in the production of aviation gasoline, up some 700 per cent since 1939. Present plans call for an increase in the productive capacity of this division to 44,000,000 barrels annually, or triple the present output. Recently Price Administrator Henderson "requested" that the prices on all crude and refined oil products be frozen at the level prevailing on October 1, last and as a result several companies which had previously posted an advance of 25 cents in crude prices were compelled to rescind the higher quotation. Nevertheless the present price level, coupled with sustained high demand, promises the industry continued good earnings for some time to come.

Westinghouse Electric

Following the completion of new financing the shares of Westinghouse Elec. & Mfg., have displayed much better market action. Despite the fact that per-share earnings will be diluted by the recent sale of 534,426 additional shares of common stock, the stock has a lot more investment appeal at recent levels around 75 than it did early in the year when it was selling above 100. Even giving effect to the additional common stock outstanding per share earnings this year will be well in excess of $6, indicating at least a 50% margin of safety for the present $4 dividend rate, Funds realized from the recent sale of stock and $20,000,000 2⅛% debentures will be used to pay off $21,000,000 in bank loans and provide the additional funds necessary to carry out the ambitious expansion program now under way. In the first nine months of this year the company booked more than $450,000,000 in new orders, a gain of 72% over last year. Billings in the same period were 54% larger than a year ago, while unfilled orders at the end of last September were 160 per cent greater.

An Attractive Preferred

Sharp & Dohme $3.50 preferred shares, recently quoted around 56 to yield 6.25 per cent, should appeal to the income investor seeking something better than an average return on his funds. The company is a prominent manufacturer of pharmaceuticals and biologicals. Most of these products are distributed through professional channels and are not sold directly to the public. Although the company's past record of earnings has not been a particularly impressive one, and dividends on the preferred shares were omitted for four quarters in 1932-33, the recent trend has been toward larger sales accompanied by a wider margin of profit. In the first nine months of this year, sales were well ahead of last year and net available for preferred dividends in that period was equal to $6.76 a share, comparing with $4.80 a share in the same months last year. For the full current year dividends on the preferred will probably be covered at least twice. The shares are callable at 75.



Air conditioning compressors for use in defense plants being manufactured in Springfield plant of Westinghouse Elec. & Mfg.

Consumer Credit

The latest report of the Department of Commerce throws some interesting sidelights on the trend of consumer buying and the effects of the curbs on installment credit initiated several months ago. Consumer installment loan balances held by small personal loan companies declined about $10,000,000 from the beginning of September to the end of October. In the same months last year there was a gain of $1,000,000. The volume of loans granted in September was 21% below August, while installment loans in October rose 12% from the September level. September marked the first month in 1941 in which the loan volume of personal finance companies fell below the corresponding month of 1940. This trend promises to become more pronounced in the months to come and accounts in a large measure for the high yield basis on which the shares of the installment finance and personal loan companies are currently selling.

Cigarette Companies

The effects of greatly increased taxes on earnings of leading cigarette manufacturers, emphasized by the recent reduction in the American Tobacco dividend from $1.25 a share to 75 cents quarterly, appear likely to become intensified by the higher prices which these companies will have to pay for tobacco next year. While it is the policy to average tobacco costs over a three-year period, higher prices will mean either increased borrowing or the diversion of a greater share of earnings to inventory, if they do not immediately affect profit margins adversely. Although the current tax bill did not increase the excise tax on cigarettes, manufacturers are worried over the likelihood of their escape next year. The only effective recourse open to them is to increase the price of cigarettes. The last advance in cigarette prices was made in January, 1937. Whether greatly increased public purchasing power will permit the companies to do this without sacrificing sales of popular brands to the lesser known, but cheaper, brands remains to be seen. Sales will doubtless continue to expand but not sufficiently so to absorb entirely the prospective increase in costs and taxes. More dividend casualties in this group seem inevitable over the next year.

Paramount

For the first time in ten years, earnings of Paramount Pictures this year will be larger than those of Loew's, its principal competitor. Paramount's net will be approximately $10,000,000 as compared with about $8,500,000 for Loew's. Paramount's profits in the third quarter were up nearly 100% from a year ago and for the nine months net available for the common stock was equal to $2.60 a share, after preferred dividends, up $1 a share from the same period last year. Contributing importantly to the sharp gain in current earnings have been the greatly increased receipts of the company's extensive theater chain. For many years the theater chain was a costly white elephant but now it is more than offsetting the loss of foreign revenue. Moreover, restrictions on the withdrawal of foreign funds have been modified and next year returns from abroad will be larger. Incidentally, it is noteworthy that the company's tax liability is lowered considerably by the inclusion of the high cost theater chain in capitalization.

Producing facilities of Westinghouse Elec. & Mfg. will be greatly enlarged. Above is a new boring mill, one of the country's largest.

Correction

Through a printer's error of transposition in a recent issue, it was made to appear that Swift & Co. had paid no dividends in 1940 or 1941, although it was largely because of dividend yield that this issue was included in a tabulation of recommended securities. The company, of course, has long paid dividends. Total of $1.20 was paid in 1940 and thus far $1.50 has been distributed in 1941, reflecting sharp improvement in position of this leading meat packer. Current yield is approximately 6.4%.

Nine Months' Earnings of Representative Companies

Company	Per-Share Earnings 9 Months 1941	Per-Share Earnings 9 Months 1940	Dividends Paid or Declared 1941
Abbott Laboratories	$2.34	$2.34	$1.50
Anaconda Copper	3.77	2.79	1.50
Atlantic Gulf and West Indies	12.12	d2.88	3.00
Bigelow-Sanford Carpet	4.41	3.76	4.00
Celanese Corp.	2.80	2.88	1.50
Columbian Carbon	4.73	4.50	4.70
Curtiss-Wright	1.98	0.88	2.00
Eastern Air Lines	1.54	1.42	none
Fruehauf Trailer	4.13	1.94	1.40
Hercules Motors	2.70	0.94	0.75
International Nickel	1.66	1.71	2.00
International Paper	4.41	4.80	none
Mid-Continent Petroleum	1.91	1.40	1.15
Montgomery Ward	2.47	2.77	2.00
Pullman	2.38	1.49	2.50
Raybestos-Manhattan	2.78	2.16	2.00
United Air Lines	0.45	0.68	none
United Drug	0.95	0.07	none

d-deficit.

Savings and Loan Associations

The Merits of Insured Share Accounts For Systematic Investment of Savings

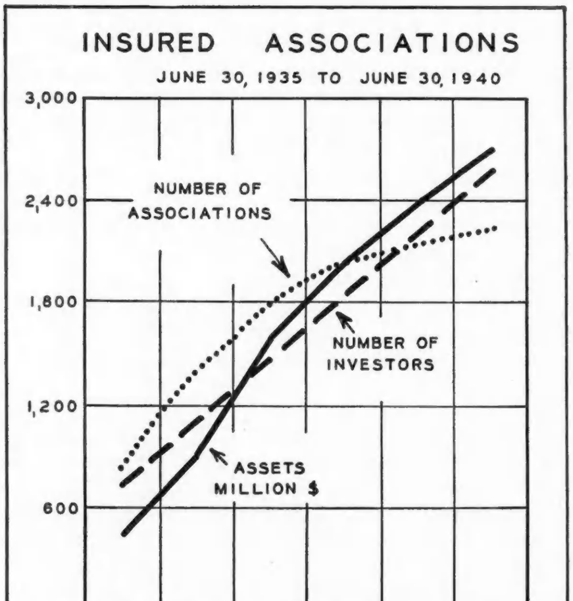
BY FRANK W. WALTERS

SYSTEMATIC savings have long been recognized both as the "open sesame" to the accumulation of funds by individuals, and the foundation of capitalism. Thrift—the habit of regularly spending less than is earned—is required of most individuals who desire financial independence. Various financial institutions have been developed over a period of years to encourage persons of moderate means to save systematically. The functions of savings banks, insurance companies, and the divisions of the New York financial market in attracting individual savings and serving the financial requirements of trade, industry, and gvernment are familiar to most everyone. At present, the Federal government is seeking to foster savings and raise funds toward financing the armament program by offering defense bonds. The government also is encouraging thrift by individuals because the defense program is lifting national income to successive new records and at the same time reducing the supply of certain types of consumer goods. Thrift, therefore, is a national necessity, will help allay further increases in prices of consumer goods, and can be practised more easily now than formerly by many individuals who are sharing in the general rise in salaries and wages.

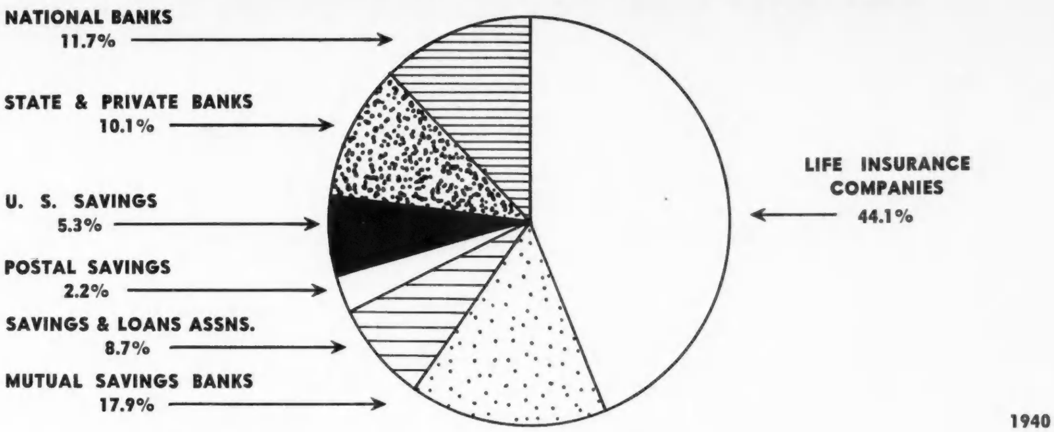
Of the several channels through which savings may be invested, perhaps the least known to the average investor is the Savings and Loan Association. These associations dot the country and may be designated by such alternative titles as "building association," "co-operative building and loan association," "co-operative bank," and "homestead association," but the title "savings and loan association" is the more general designation, and consequently will be used throughout this article.

While the appeal of savings and loan associations as investment media is primarily to individuals of modest means, more substantial investors have been attracted by the relatively good yields. As in the case of savings banks, the distributions made to investors in savings and loan associations are called dividends. The prevailing dividend rates range from 2 per cent, mostly in New York City, to more than 4 per cent, whereas savings banks, which operate somewhat similarly to the savings and loan associations, are paying from 1 to 2 per cent in the eastern part of the United States. Declining yields have of course been characteristic of both types of institutions during the last several years, as well as high-grade bonds, which also might be used as comparative yardsticks of current returns. However, the national average of dividend rates paid by savings and loan associations currently is around $3\frac{1}{4}$ per cent, while the average for savings banks in the eastern territory is around $1\frac{1}{2}$ per cent.

Savings and loan associations are of three general types: (1) Federal associations, organized under the Home Owners Loan Act of 1933, authorizing the granting of Federal charters to these associations; (2) State chartered associations approved by the Federal Savings and Loan Insurance Corporation, which was organized in 1934 with an initial capital of $100 million; and (3) State chartered associations which are not members of the Federal Savings and Loan Insurance Corporation.



SAVINGS OF THE PUBLIC IN FINANCIAL INSTITUTIONS



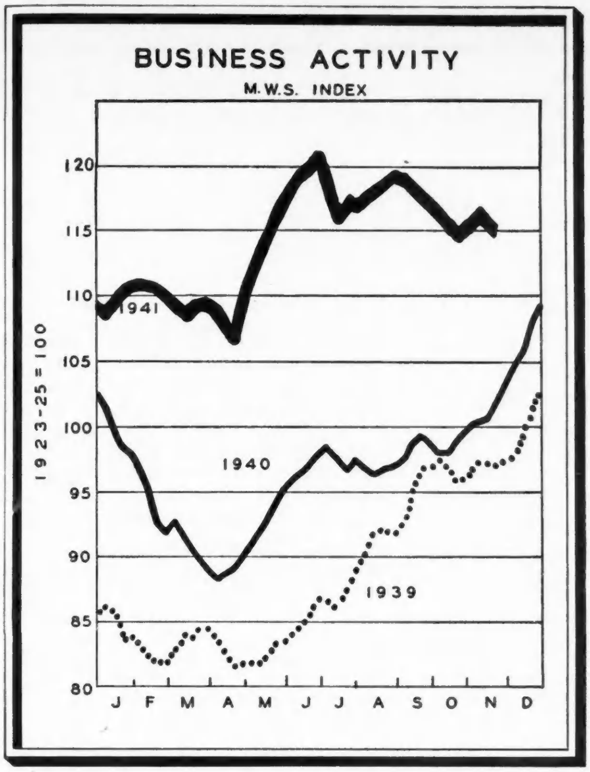
Federal insurance of each account up to $5,000 is mandatory for all Federal Savings and Loan Associations, and in addition the Federal Savings and Loan Insurance Corporation is authorized to approve State chartered associations for insurance purposes. Thus, all State chartered associations which meet the standards established by the Insurance Corporation are eligible for insurance of accounts, while all Federal associations are required by law to qualify for insurance. The standards of eligibility as outlined by the Insurance Corporation include "sound financial condition, competent management, safe lending policies, ability to meet withdrawal demands and satisfactory earning power," and the Insurance Corporation states that "The granting of insurance to an institution is evidence of its soundness and reliability." At present, there are about 1,400 Federal associations in which investors have the benefit of insurance of each account up to $5,000, and, in addition, there are some 800 State chartered associations which have been approved for insurance purposes. While State chartered associations without Federal insurance of accounts may afford equally safe investment media, the absence of Federal insurance and the difficulty of generalizing on institutions subject to 48 different sets of operating rules, require that this article be devoted to a discussion of Federal associations and State chartered institutions with Federal insurance.

As we have seen, Federal chartered associations are required to qualify for insurance, while State chartered associations may obtain insurance of each account up to $5,000 by meeting the standards of eligibility. All Federal associations are supervised by the Federal Home Loan Bank Board, while State chartered insured associations are supervised by State authorities. In addition, all insured associations are subject to the rules and regulations of the Federal Savings and Loan Insurance Corporation, which demands good quality of mortgage loans, adequate reserves, and sound operating policies generally, and are examined by the Insurance Corporation at least once a year. Annual audits also are required.

The investments made by insured associations are limited to first mortgages, and, in this respect, operations are somewhat like those of savings banks, except that the latter also may invest in a considerable number of securities conforming to legal requirements. In general, first mortgage loans of Federal associations are restricted to residential property located within 50 miles of the home office of the association, and may not exceed $20,000 on any one property. Loans on apartment houses are excluded by the $20,000 loan limitation and by the provision in the law which limits loans to not to exceed four-family houses. The great majority of loans made by such associations are on single family houses, and the average loan is somewhat under $5,000.

Each investment made by individuals in insured associations therefore is reinvested in many mortgages. A further element of strength is the relatively short period for which loans are contracted, namely around 15 years, and the requirement of monthly amortization. Because of systematic amortization provisions, mortgages made by associations generally are amortized to the extent of one-third at the end of five years.

Investment in insured savings and loan associations is just what the term implies. The investor holds a "share account," the principal of which is insured up to $5,000, and receives "dividends" at such rate as is justified by the association's earnings. While the principal can not fluctuate in dollar value, and may be withdrawn from the association under certain conditions (at present, generally on demand), the purpose of the associations is to encourage long-term investment. As evidence of an account, "investment certificates" are issued in multiples of $100, and dividends on such certificates are paid semi-annually by check; while passbooks are issued for any amount, and dividends are credited semi-annually. There is no legal difference between investment certificates and passbooks, the difference being administrative only. While insurance of principal of any one account is limited up to $5,000, any one individual may have a $5,000 account, his wife may have a $5,000 account, and husband, wife, or any two other individuals may have a joint account. By this procedure, any two persons may obtain insurance coverage on accounts up to $15,000 in each association. Investment certificates of insured savings and loan associations are legal for investment of trust (*Please turn to page 224*)



CONCLUSIONS

INDUSTRY—Fourth quarter corporate profits after taxes will probably average below last year.

TRADE—Department stores sales have been rising faster than other retail trade.

COMMODITIES—Prices hold in narrow range. Fate of price control legislation in doubt.

MONEY AND CREDIT—Earnings assets of N. Y. City banks decline. Further drop in gold stocks.

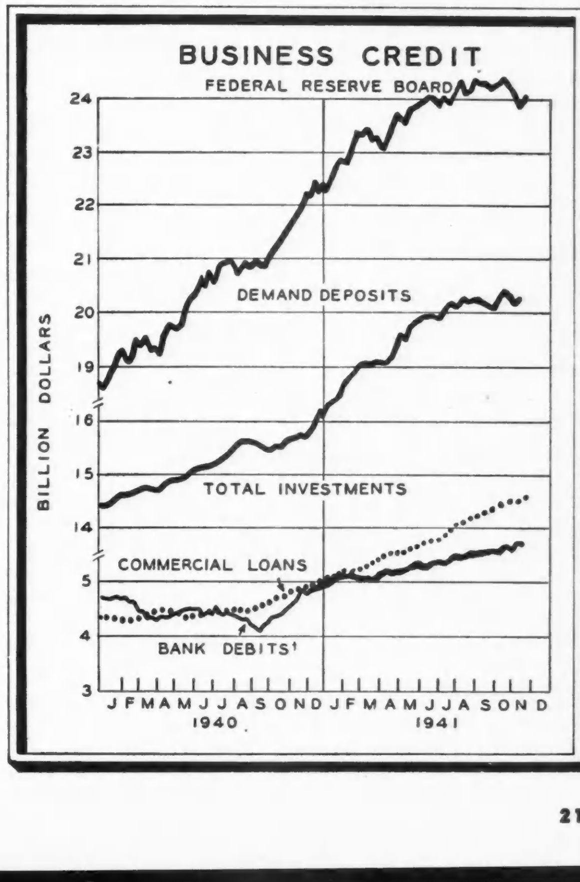
The Business Analyst

Per capita **Business Activity** has receded about a point during the past fortnight, with all components of our business index, save **paperboard** production, reporting less than normal seasonal improvement. **Income payments** in September reached the annual rate of $92 billions—23% above last year, against a nine-months' rise of only 17%. Owing, however, to rising prices, the National Incomes would buy no more in August and September than in July, the rise in rural purchasing power having been offset by a decline in nonagricultural areas. Defense expenditures rose to about $1.56 billions in October—an annual rate of nearly $19 billions, and $213 millions more than for September. Totals are $10.2 billions for ten months of the current calendar year and $12.1 billions since June 30, 1941. Sec'y. Morgenthau says new money borrowing by the Government in the 1942 fiscal year will be between $7 billions and $8 billions, of which all but $3 billions will be through sale of defense savings bonds and tax anticipation certificates.

* * *

A compilation by the National City Bank of reports from 350 leading industrial corporations shows a nine-months' increase over last year of nearly 26% in profits after taxes. Aggregate profits (in millions) by quarters were: 1940—

(Please turn to following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Oct.	164	161	130
INDEX OF PRODUCTION AND TRADE (b)	Sept.	109	113	94
Production	Sept.	114	114	95
Durable Goods	Sept.	117	119	91
Non-durable Goods	Sept.	110	110	97
Primary Distribution	Sept.	108	109	87
Distribution to Consumers	Sept.	101	116	96
Miscellaneous Services	Sept.	103	104	92
WHOLESALE PRICES (h)	Sept.	90.3	88.8	77.4
INVENTORIES (n. i. c. b.)				
Inventories	Sept.	151.4	148.9	122.4
New Orders	Sept.	201	202	136
Shipments	Sept.	231	249	171
COST OF LIVING (d)				
All Items	Oct.	91.9	90.8	85.5
Food	Oct.	90.7	89.4	77.4
Housing	Oct.	89.2	88.9	87.4
Clothing	Oct.	78.3	76.9	73.1
Fuel and Light	Oct.	90.0	89.4	85.9
Sundries	Oct.	101.2	99.8	97.9
Purchasing Value of Dollar	Oct.	108.8	110.1	117.0
NATIONAL INCOME (cm)†	Aug.	$7,216	$7,454	$5,906
CASH FARM INCOME†				
Farm Marketing	Sept.	$1,297	$1,101	$854
Including Gov't Payments	Sept.	1,325	1,121	908
Total, First 9 Months	Sept.	7,690	......	6,189
Prices Received by Farmers (ee)	Oct.	139	139	99
Prices Paid by Farmers (ee)	Oct.	136	133	122
Ratio: Prices Received to Prices Paid (ee)	Oct.	101	101	78
FACTORY EMPLOYMENT (f)				
Durable Goods	Sept.	142.3	138.4	108.2
Non-durable Goods	Sept.	129.2	127.5	114.4
FACTORY PAYROLLS (f)	Sept.	163.0	157.8	111.6
RETAIL TRADE				
Department Store Sales (f)	Oct.	104	116	94
Chain Store Sales (g)	Oct.	146	147	120
Variety Store Sales (g)	Oct.	147	150	123
Rural Retail Sales (j)	Oct.	167	174	122
Retail Prices (s) as of	Aug.	102	99.6	92.9
FOREIGN TRADE				
Merchandise Exports†	Sept.	$417	$455	$295
Cumulative year's total† to	Sept. 30	3,318	......	3,027
Merchandise Imports†	Sept.	263	283	195
Cumulative year's total† to	Sept. 30	1,942	......	2,417
RAILROAD EARNINGS				
Total Operating Revenues★	Sept.	$488,979	......	$382,715
Total Operating Expenditures★	Sept.	312,287	......	260,240
Taxes★	Sept.	61,274	......	37,292
Net Rwy. Operating Income★	Sept.	104,070	......	74,715
Operating Ratio %	Sept.	63.87	......	68.00
Rate of Return %	Sept.	3.45	......	2.50
BUILDING Contract Awards (k)	Oct.	$606	$623	$383
F. H. A. Mortgages				
Selected for Appraisal†	Oct.	97	112	116
Accepted for Insurance†	Oct.	83	92	92
Premium Paying†	Oct.	85	73	80
Building Permits (c)				
214 Cities†	Sept.	111	112	104
New York City†	Sept.	8	8	15
Total, U. S.†	Sept.	119	120	119
Engineering Contracts (En)†	Oct.	$703	$514	$406

PRESENT POSITION AND OUTLOOK

(Continued from page 213)

1st Q, 314; 2d Q, 295; 3d Q, 274; 4th Q, 373. 1941—1st Q, 370; 2d Q, 371; 3d Q, 370. Apparently corporate profits reached a peak in the 4th quarter of 1940 and have since held virtually stationary. Owing to higher costs and taxes, profits in the current quarter are likely to be somewhat less than reported for the third quarter and so compare unfavorably with the like period last year, against a 35% increase for the third quarter. **Unit labor cost** of production in the third quarter averaged 11% higher than for the like period last year; but was still 3% below the 1938 peak and 7% under the 1929 average.

* * *

Civil non-agricultural **employment** rose 439,000, somewhat less than seasonally, between August and September to a total of 40,065,000. Factory weekly **wages** in September had a purchasing power 13% greater than last year; but 1.6% under the June peak. **Wholesale prices** are now 16% higher than last year, with farm products up 33%, but other commodities only 13%. **Retail prices** are also 13% above last year.

* * *

Department store sales in October were 16% above last year, compared with a rise of only 11% for all retail stores. Comparing October with September, however, department store sales declined 1%, while sales by all retail stores gained 2%. **Inventories** carried on November 1 by department stores in the New York area were 35% above last year. **Chain store sales** in October were 21.5% above last year, compared with a gain of 20.4% for ten months; **mail order sales** rose 22%, against 27%; and **variety store sales** were up 14.6%, against 12.4%. Merchandise **exports** in September were 41% ahead of last year, compared with a 10% rise for ten months; while **imports** gained 35%, against 24%.

* * *

Owing to defense activities, the **railroads** are now carrying a 5% greater freight tonnage than in the 1923-5 base years; but, saddled with higher wages, post-war competition from expanded air, highway and waterways transport facilities will be keener than ever before. During the present emergency, however, tax savings will ameliorate the burden of higher wages. It is estimated, for example, that while adoption of wage increases recommended by the fact finding board would raise payrolls by $270 millions annually, $70 millions of this would be absorbed by tax savings. For a few roads, such as New York Central, as much as 50% of the payroll increase would be saved on taxes.

* * *

Starting with a low of 54,000 dwelling units erected in 1933, each year has witnessed an increase, up to 1940 when 540,000 non-farm **dwellings** were completed; but the upward phase of the cycle has been ended abruptly now by priorities and the $6,000 cost limitation.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Oct.	7,243	6,820	6,645
Pig Iron Production in tons★	Oct.	4,843	4,717	4,446
Shipments, U. S. Steel in tons★	Oct.	1,851	1,664	1,572
AUTOMOBILES				
Production				
Factory Sales	Sept.	234,255	147,600	269,108
Total First 9 Months	Sept.	3,827,623	......	3,005,212
Registrations				
Passenger Cars, U. S. (p)	July	391,795	443,470	315,246
Trucks, U. S. (p)	July	67,412	62,265	49,053
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	377	377	360
Shipments, U. S. & Canada★ (tons)	Sept.	385	385	362
Mill Stocks, U. S. & Canada★ (tons)	Sept. 1	160	169	178
LIQUOR (Whisky)				
Production, Gals.★	Sept.	9,424	6,570	6,776
Withdrawn, Gals.★	Sept.	9,212	7,104	6,335
Stocks, Gals.★	Sept.	499,503	501,587	477,043
GENERAL				
Paperboard, new orders (st)	Sept.	542,792	565,853	399,133
Machine Tool Output (millions of $)	Oct.	77.2	68.7	49.4
Railway Equipment Orders (Ry)				
Locomotives	10 Mos.	1,056	......	539
Freight Cars	10 Mos.	112,537	......	50,824
Passenger Cars	10 Mos.	621	......	264
Cigarette Production†	Oct.	19,632	18,761	16,448
Bituminous Coal Production★ (tons)	Oct.	49,800	46,880	38,700
Portland Cement Shipments★ (bbls.)	Sept.	18,284	17,454	14,741
Commercial Failures (c)	Sept.	735	954	976

PRESENT POSITION AND OUTLOOK

With **automobile** production running well ahead of retail sales, dealer field stocks on Nov. 1 were about 8% ahead of last year and the largest for any like date on record with the exception of 1937. Anticipating much more drastic cuts in production next year, and in an effort to keep out of high income tax brackets, dealers are not pressing sales at the present time. Expectation of considerably higher retail prices later also dampens current sales zeal.

* * *

Freight car production in October was about 30% ahead of September, owing to increased receipts of material; but priority difficulties make it uncertain if 1942 production schedules calling for 120,000 freight cars and 1,000 **locomotives** can be realized. Producers' expenditures for new machinery and equipment this year will approximate $9 billion, against $5.6 billion in 1929. **Machine tool** output this year will exceed $3.5 billion.

* * *

Higher leaf prices may raise **cigarette** manufacturers' costs next year by nearly $20 billion, thereby necessitating an advance in wholesale and retail prices, especially if taxes continue to rise. Cigar profits for nine months were under last year. North American production of **newsprint** in October was 1.5% above last year, against a ten-months' gain of 1.3%.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Nov. 15	115.1	115.9	103.4
ELECTRIC POWER OUTPUT				
K.W.H.†	Nov. 15	3,304	3,326	2,890
TRANSPORTATION				
Carloadings, total	Nov. 15	883,839	873,535	745,295
Grain	Nov. 15	40,297	35,532	29,999
Coal	Nov. 15	168,274	164,568	148,453
Forest Products	Nov. 15	43,267	42,455	35,814
Manufacturing & Miscellaneous	Nov. 15	389,243	382,916	313,094
L. C. L. Mdse	Nov. 15	156,278	158,966	150,273
STEEL PRICES				
Pig Iron $ per ton (m)	Nov. 17	23.61	23.61	22.61
Scrap $ per ton (m)	Nov. 17	19.17	19.17	20.92
Finished c per lb. (m)	Nov. 17	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Nov. 22	97.5	97.5	97
PETROLEUM				
Average Daily Production bbls.★	Nov. 15	4,087	4,096	4,088
Crude Runs to Stills Avge. bbls.★	Nov. 15	4,010	3,945	3,512
Total Gasoline Stocks bbls.★	Nov. 15	83,412	82,777	79,340
Fuel Oil Stocks bbls.★	Nov. 15	95,992	95,815	105,909
Crude—Mid-Cont. $ per bbl	Nov. 8	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Nov. 8	2.23	2.23	1.33
Gasoline—Refinery $ per gal	Nov. 8	.085	.085	.05⅛

PRESENT POSITION AND OUTLOOK

Electric power output during the past fortnight has failed to expand at the normal seasonal rate, and the margin of increase over last year has narrowed to around 14%. Inability to obtain equipment on schedule is slowing expansion in new capacity. Only 60,000 kilowatts went into service during August, against 394,000 scheduled. Navy is taking generators intended for utilities.

* * *

Steel industry profits above taxes in nine months averaged 32% above last year. Scrap shortage is making it increasingly difficult to maintain near capacity operations, quite apart from labor trouble. Current operating rate is slightly under last year.

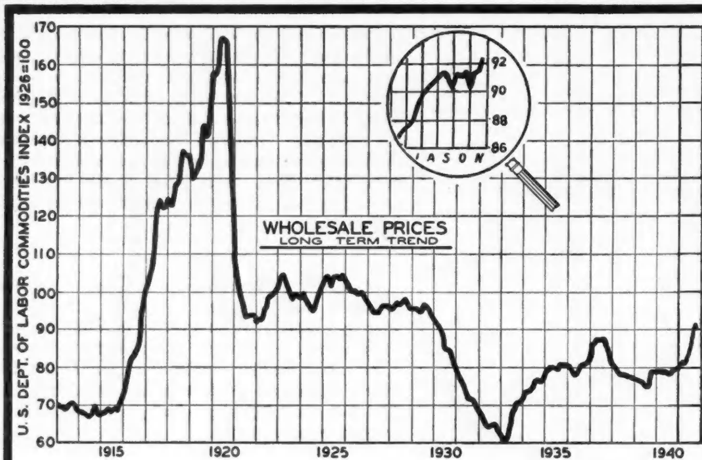
* * *

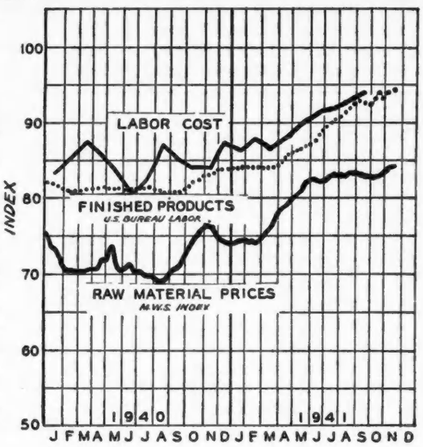
O P A has requested that recent 7c increase in price of Texas crude be rescinded pending further examination of the present necessity for price advances. Profits after taxes reported by the **oil** industry for nine months were 29% above the like period last year, and dividend disbursements this year are expected to approximate $260—20% above 1940. With production running currently about 15% ahead of last year, **gasoline** inventories are up only 5%. Crude oil production is nearly 16% above last year.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

Although commodity prices as a whole have failed to score any worthwhile gains over the past two months, the near future may witness a resumption of the upward trend. The Bureau of Agricultural Economics has gone on record predicting further gains in both agricultural and industrial commodities next year, but anticipates that the rise will be less spectacular than that which occured this year, February through September. The Gore bill, providing for the imposition of price ceilings on all commodities, as well as wages and farm products, will be introduced in the House this week. It is doubtful whether Congress will accept so drastic a price control measure, and in any event there will be at least several weeks of debate and deliberation. Meanwhile OPA continues its piecemeal efforts to alleviate the pressure for higher prices. OPA officials themselves, however, decry the ineffectiveness of these methods.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	High	Low	Nov. 14	Nov. 21
28 Basic Commodities	156.9	105.6	154.1	154.9
Import Commodities	159.6	104.7	155.2	156.0
Domestic Commodities	156.5	105.5	153.3	154.2
Domestic Agricultural	166.4	111.4	159.1	160.8
Foodstuffs	172.6	100.5	166.3	166.9
Raw Industrial	146.9	101.3	145.4	146.3

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
December	Nov. 22	15.92	16.13	10.17
January	Nov. 22	15.95	16.15	10.09
Spot	Nov. 22	17.16	17.29	10.38
(In bales 000's)				
Consumption, U. S.	Oct.	954	876	771
Exports, (Ex-Linters)	Aug.	34,967	32,718	64,743
Imports (Ex-Linters)	Aug.	43,322	17,243	10,153
Government Crop Est.	Nov. 1	11,020	......	12,686(ac)
Active Spindles (000's)	Oct.	23,043	22,964	22,471
WHEAT				
Price cents per bu. Chi. closing				
December	Nov. 22	114½	115	88¼
May	Nov. 22	120	119⅞	87⅞
Exports bu. (000's)	Aug.	......	2,413	2,976
Visible Supply bu. (000's) as of	Aug. 23	217,648	215,539	164,130
Gov't Crop Est. bu. (000's)	Oct. 1	961,194	......	816,698(ac)
CORN				
Price cents per bu. Chi. closing				
December	Nov. 22	73⅞	74⅞	62¾
May	Nov. 22	79⅞	80⅝	62¾
Exports bu. (000's)	Aug.	......	1,370	3,357
Visible Supply bu. (000's) as of	Aug. 23	37,232	37,931	25,229
Gov't Crop Est. bu. (000's)	Oct. 1	2,626,000	......	2,449,200(ac)

PRESENT POSITION AND OUTLOOK

Cotton. While prices ruled firm and fluctuations were confined to a narrow range, trading interest was small. Speculators viewing the labor situation and the apparent impasse in Japanese-American talks preferred to remain on the sidelines. The prospect of wide-open debate on price control legislation beginning this week was another factor tending to discourage trading. Commodity Credit Corp., reports that loans have been granted on 664,917 bales through November 15, compared with 1,900,000 bales for the same period last year. Mill offerings of cotton goods have been light, apparently on the prospect of higher prices.

* * *

Wheat. Grain prices as a whole have displayed firmness, but like cotton the markets appear to be suffering from the lack of speculative interest. The net gain in the December contract last week was only ¼ cent. Soy beans showed some recovery following a prolonged decline. All reports bear out the prospect of a heavy movement of wheat into loan account, with some estimates indicating that as much as 50,000,000 bushels will be pledged before the December 31 deadline.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Nov. 22	12.00	12.00	12.00
Exports f. a. s. N. Y.	Nov. 22	11.00	11.00	10.75
Refined Prod., Domestic*	Oct.	86,617	81,553	83,076
Refined Del., Domestic*	Oct.	121,313	121,021	103,771
Refined Stocks, Domestic*	Oct. 31	67,260	63,670	164,618
TIN				
Price cents per lb., N. Y.	Nov. 22	52	52	51
Tin Plate, price $ per box	Nov. 22	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	Sept.	12,715	13,625	11,410
U. S. Visible Supply† as of	Sept. 30	1,767	2,393	9,438
LEAD				
Price cents per lb., N. Y	Nov. 22	5.85-5.90	5.85-5.90	5.50
U. S. Production*	Sept.	44,903	51,157	51,441
U. S. Shipments*	Sept.	47,093	55,055	53,456
Stocks (tons) U. S., as of	Sept. 30	13,148	15,330	41,292
ZINC				
Price cents per lb., St. Louis	Nov. 22	7.25	7.25	7.25
U. S. Production*	Sept.	73,225	75,524	59,800
U. S. Shipments*	Sept.	71,767	71,403	75,193
Stocks, U. S., as of*	Sept. 30	19,427	17,969	36,821
SILK				
Price $ per lb. Japan xx crack	Nov. 22	3.57	3.57	2.60
Mill Dels. U. S. (bales)	Oct.	4,160	4,685	39,877
Visible Stocks N. Y. (bales) as of	Oct. 31	57,508	53,008	48,297
RAYON (Yarn)				
Price cents per lb.	Nov. 22	53	53	53
Consumption (a)	Oct.	41.7	37.0	36.7
Stocks as of (a)	Oct. 31	5.3	4.9	......
WOOL				
Price cents per lb., raw, fine, Boston	Nov. 22	110-112	110-112	108
Consumption, period ending (a)	Aug. 31	39,824	46,750	24,799
HIDE				
Price cents per lb. No. 1 Packer	Nov. 22	15½	15½	14
Visible Stocks (000's) as of	July 31	13,441	13,479	12,718
No. of Mos. Supply as of	July 31	5.76	5.9P	8.18
Boot and Shoe Production, Prs.★	Sept.	43,376	44,985	35,092
RUBBER				
Price cents per lb	Nov. 22	22½	22½	21
Imports, U. S.†	Oct.	72,222	83,151	74,716
Consumption, U. S.†	Oct.	60,418	53,655	59,644
Stocks, U. S. as of	Oct. 31	454,711	473,684	235,353
Tire Production (000's)	Sept.	4,583	5,005	4,413
Tire Shipments (000's)	Sept.	5,264	3,400	4,462
Tire Inventory (000's) as of	Sept. 30	5,170	5,834	9,837
COCOA				
Price cents per lb.	Nov. 22	8.95	8.69	4.87
Arrivals (bags 000's)	Sept.	405	534	508
Warehouse Stocks (bags 000's)	Nov. 8	1,389	1,380	1.293
COFFEE				
Price cents per lb. (c)	Nov. 22	13⅛	13⅛	7¼
Imports, season to (bags 000's)	Oct. 1	3,074	......	4,214
U. S. Visible Supply (bags 000's)	Nov. 1	1,902	2,419	1,694
SUGAR				
Price cents per lb.				
Raw	Nov. 22	3.50	3.50	2.95
Refined (Immediate Shipment)	Nov. 22	5.25	5.25	4.45
U. S. Deliveries (000's)*	10 mos.	6,762	......	5,679
U. S. Stocks (000's)* as of (rr)	Oct. 31	713	690	680

PRESENT POSITION AND OUTLOOK

Copper. Although the export copper price remains unchanged at 11.25 cents f. a. s. N. Y., sellers were reluctant to do business, seeking to confirm the report that Metals Reserve Corp. had contracted for additional supplies of Latin-American copper at 12 cents.

* * *

Tin. Prices of Straits tin continue to hold at levels which practically prohibit American purchase without running the risk that the full price may exceed the present 52-cent maximum.

* * *

Lead. Producers have been disappointed in the failure thus far of the OPA to permit a rise in prices similar to that which occurred in Zinc.

* * *

Zinc. Production of zinc in September totaled 62,339 tons, a decline of 1% from the previous month. October estimates indicate an increase of about 1.5% in output.

* * *

Rayon. For the fourth consecutive quarter production of rayon in the United States broke all previous records in the three months ended September 30. Staple fibre available for consumption also set a record, up 81% from the third quarter of last year.

* * *

Wool. Domestic consumption of wool for apparel attained the largest volume on record in September. It was 8% higher than in August and 50% above September a year ago. Unfilled orders on the books of 119 firms totaled 98,458,000 pounds at the end of September compared with 96,899,000 pounds at the end of June.

* * *

Hides. The Department of Commerce estimates that shoe production in 1941 promises to set a new high record and may attain the level of 490 million pairs. Supplies of hides are officially reported to be ample for several months to come.

* * *

Rubber. Announcement has been made that sufficient crude rubber will be allocated by OPM to prevent a tire shortage next year. It is certain, however, that a large portion of new tires available for civilian buyers will be re-treads.

* * *

Cocoa. Prices have soared following the repeal of the so-called Neutrality Act and the implications as to possible danger to shipping facilities. Prices of cocoa last week attained new high levels on the fear of replacement difficulties in 1941.

* * *

Sugar. Deliveries of sugar for direct consumption in October totaled 544,292 short tons compared with 609,082 short tons in October a year ago. Stocks in refiners' hands at the end of October were larger than at any time during the period 1937-1940.

* * *

Coffee. Prices of Brazilian coffee have firmed in response to increased demand and the rather low stocks on hand at Brazilian ports. Domestic stocks, while substantial, would not suffice long should demand suddenly spurt.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available. (rr)

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Nov. 22	1¼%	1¼%	1¼%
Prime Commercial Paper	Nov. 22	½-¾%	½-¾%	½-¾%
Call Money	Nov. 22	1%	1%	1%
Re-discount Rate, N. Y.	Nov. 22	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Nov. 8	3,625	......	2,727
Cumulative year's total to	Oct. 31	18,383	......	13,884
Bank Clearings, N. Y.	Nov. 8	3,704	......	3,051
Cumulative year's total to	Oct. 31	17,494	......	12,526
F. R. Member Banks				
Loans and Investments	Nov. 12	29,611	29,523	24,871
Commercial, Agr., Ind. Loans	Nov. 12	6,633	6,573	4,895
Brokers Loans	Nov. 12	554	550	452
Invest. in U. S. Gov'ts	Nov. 12	11,703	11,683	9,476
Invest. in Gov't Gtd. Securities	Nov. 12	2,929	2,923	2,704
Other Securities	Nov. 12	3,662	3,679	3,605
Demand Deposits	Nov. 12	24,151	23,876	21,818
Time Deposits	Nov. 12	5,450	5,452	5,383
New York City Member Banks				
Total Loans and Invest.	Nov. 19	12,184	12,225	9,853
Commercial, Ind. & Agr. Loans	Nov. 19	2,562	2,565	1,865
Brokers Loans	Nov. 19	381	403	324
Invest. in U. S. Gov'ts	Nov. 19	5,347	5,373	4,060
Invest. in Gov't Gtd. Securities	Nov. 19	1,606	1,607	1,521
Other Securities	Nov. 19	1,451	1,444	1,313
Demand Deposits	Nov. 19	10,320	10,248	10,058
Time Deposits	Nov. 19	770	765	718
Federal Reserve Banks				
Member Bank Reserve Balance	Nov. 19	12,942	12,707	14,127
Money in Circulation	Nov. 19	10,535	10,472	8,436
Gold Stock	Nov. 19	22,778	22,793	21,716
Treasury Currency	Nov. 19	3,228	3,222	3,066
Treasury Cash	Nov. 19	2,184	2,213	2,188
xcess Reserves	Nov. 19	3,690	3,540	6,800
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Oct.	200	195	393
New Capital	Oct.	97	34	48
Refunding	Oct.	103	101	345

COMMENT

The latest statement of New York City Member banks revealed a decline of $41,000,000 in earnings assets. For the third time in the past five weeks loans to commerce, agriculture and industry declined, the drop in the most recent week totaling $3,000,000. Loans to security dealers were off $22,000,000. Holdings of direct Government bonds declined $26,000,000; Treasury bills increased $6,000,000, while holdings of Treasury bonds and notes were off $23,000,000 and $9,000,000 respectively. Holdings of Government-guaranteed issues were likewise $1,000,000 lower but holdings of other securities were up $7,000,000.

* * *

Reflecting principally a reduction of $209,000,000 in Treasury balances, excess reserves of all banks increased $150,000,000 in the most recent week. At the time reserve requirements were increased on November 1, the Treasury balance was in excess of $900,000,000, while excess reserves were about $3,400,000,000. The treasury balance has since declined to $598,000,000 and excess reserves have risen to $3,690,000,000.

* * *

The latest statement revealed another drop in the gold stock, the second decline in the past three weeks. Although the buyer was not disclosed it was undoubtedly earmarked for the account of some foreign nation—possibly one of the Latin-American countries or possibly Switzerland or China. Supplies of such earmarked gold in the United States at the present time are at an all-time high.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1941 Indexes High	Low	Nov. 15	Nov. 22
290 COMBINED AVERAGE	56.9	46.3	49.1	49.6
4 Agricultural Implements	99.9	72.2	82.9	82.4
9 Aircraft (1927 Cl.—100)	199.4	137.1	175.5	175.6
4 Air Lines (1934 Cl.—100)	314.1	198.9	282.0	290.6
6 Amusements	31.7	20.8	29.1	30.2
14 Automobile Accessories	95.7	74.8	76.9	79.0
13 Automobiles	11.1	7.5	8.3	8.4
3 Baking (1926 Cl.—100)	10.7	6.3	6.4	6.3f
3 Business Machines	104.6	86.5	99.5	97.4
2 Bus Lines (1926 Cl.—100)	64.3	44.3	44.3b	46.2
8 Chemicals	165.8	135.5	149.3	150.2
18 Construction	26.1	19.5	19.9	20.2
5 Containers	203.7	166.0	167.3	167.5
10 Copper & Brass	88.8	68.7	68.7x	69.6
2 Dairy Products	29.9	25.5	29.3	28.9
6 Department Stores	23.2	16.7	18.7	19.2
6 Drugs & Toilet Articles	45.9	31.1	45.9h	44.4
2 Finance Companies	182.3	131.4	131.6	131.4e
7 Food Brands	93.1	74.9	82.2	81.7
2 Food Stores	45.2	36.7	42.4	42.9
4 Furniture	42.2	30.0	30.0g	30.0
2 Gold Mining	703.8	441.2	441.2g	463.5
6 Investment Trusts	19.2	15.1	16.5	17.1

(Nov. 14, 1936, Close—100)	1941 Indexes High	Low	Nov. 15	Nov. 22
100 HIGH PRICED STOCKS	60.10	51.01	53.05	53.52
100 LOW PRICED STOCKS	48.83	37.78	39.62	39.87
3 Liquor (1932 Cl.—100)	169.9	111.5	165.2	166.2
9 Machinery	111.9	83.3	84.5	83.3x
2 Mail Order	75.6	60.0	60.0a	61.2
4 Meat Packing	53.2	40.3	40.7	40.6
11 Metals, non-Ferrous	138.6	106.8	107.1	106.8x
3 Paper	14.2	11.0	12.1	12.1
21 Petroleum	86.1	67.4	81.7	82.6
18 Public Utilities	38.6	18.1	18.1r	18.1
3 Radio (1927 Cl.—100)	9.9	6.6	6.8	6.6g
9 Railroad Equipment	48.0	36.3	36.4	36.6
17 Railroads	11.6	7.5	8.9	9.3
2 Realty	2.9	1.6	1.6	1.6
2 Shipbuilding	129.7	102.3	110.5	110.1
12 Steel & Iron	82.6	62.8	62.8	63.7
2 Sugar	37.7	17.5	33.4	35.9
2 Sulphur	194.3	161.0	174.6	176.5
3 Telephone & Telegraph	45.9	33.2	38.7	38.0
2 Textiles	48.5	33.0	35.7	37.0
3 Tires & Rubber	13.6	9.5	13.2	13.3
4 Tobacco	73.7	54.8	55.6	54.8f
3 Variety Stores	213.7	184.8	199.3	195.5
19 Unclassified (1940 Cl.—100)	105.7	86.3	93.3	94.5

a—New LOW since 1938. b—New LOW since 1937. e—New LOW since 1934. f—New LOW since 1933. g—New LOW since 1932 h—New HIGH this year. r—New all time LOW. x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Boeing Airplane

I have owned 100 shares of Boeing Airplane stock for some time and am disappointed over the market action of the shares, at the failure to receive any dividends. Do you feel that there is any likelihood that dividends may be forthcoming in the near future? How do the company's current orders compare with a year ago? Do you feel that profits on the company's defense orders will be limited, along the lines recently proposed by Representative Vinson in Washington? It seems to me that at the present high rate at which the company is being taxed automatically prevents the company from "cashing in" on Government orders. Would you advise me to continue to hold this stock?—L. N. W., Boston, Mass.

In the first six months of 1941, Boeing Airplane Company earned $1.86 per share as compared with a loss of 6 cents per share in the corresponding period of 1940. With full year earnings estimated to approximate $5.00 per share, it is quite likely that dividend distributions will be resumed in the near future. On September 8th, it was reported that the company had a backlog of orders approximating $650,000,000 with only about 10% represented by British orders, which should be deliverable in the early part of 1942. The main business of the company is the manufacturing of flying fortresses, some of them being sub-contracted to other manufacturers for 1942 deliveries. Current expansion and increased facilities, all aid the improving outlook for the company and it is our belief that profit margins will continue the favorable trend over the near term. Volume business should go a long way towards offsetting increased tax burdens. Profit margins on Government business are expected to be lower than on commercial business or foreign orders but not to an extent detracting from the optimistic outlook for the company. In all probability if the United States entered the war as a full fledged partner of the allies, the result would be an intensification of production in view of the increasing demand of modern warfare for flying battleships. The position of this company, in the field of airplane manufacturers, is good especially in view of its experience in the larger type craft, although past experience has not been any too profitable to the company due to low contract prices for commercial airlines. Nevertheless, we feel that the stock of this company is worthy of retention as a good speculation and a strong possibility of dividend distributions over the near term.

P. Lorillard

In view of the recent action of American Tobacco Co. in reducing their dividend, I will appreciate your opinion of the outlook for tobacco stocks—with particular reference to P. Lorillard. Is the $1.20 dividend rate reasonably secure? To what extent may increased taxes dilute earnings this year? What about labor costs—and raw materials, particularly imported tobaccos? Has the increased national income caused any noticeable switch from the cheaper brands (of cigarettes and cigars) to the higher priced brands—(on which, I presume the margin of profit is larger)? My holdings are 125 shares of P. Lorillard common, bought a year ago at 22. Do you advise holding—or additional purchase—at this time?—Mrs. A. G. R., Greenwich, Conn.

While interim earnings are not published on P. Lorillard Co. it is believed, like other tobacco companies, earnings will be adversely affected by the increasing tax burden. The protection for the dividend of $1.20 per share is somewhat wider than with the case of the American Tobacco Co. where earnings for the year 1940 were $5.59 per share as compared with a dividend of $5.00 in contrast to Lorillard's earnings of $1.69 per share. Earnings for the full year have not been estimated as yet but it is believed that they will be below 1940 results. The sales of cigarettes are at extremely high levels with indications that 1941 production will run approximately 12% above last year. Sales of allied Tobacco Products were also good but increasing costs of raw materials, operating costs,

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and taxes, will be an adverse factor of greater importance to earnings than the increase in sales. A fairly good supply of imported tobaccos has been on hand and it is believed that importations will be continued even though they will be on a reduced scale. No particular difficulty is a near term likelihood from this angle. With the increased purchasing power brought about by our industrial expansion and all-out aid to the Democracies, there has been a turn towards the higher priced brands but increasing income tax burdens on individuals and higher living costs, may have a restricting influence upon the possibility of a continuation of such a turn. With the stock currently selling at the lowest levels since 1938, when the low was 13¾, it appears that much of the adverse outlook has been discounted although that is no assurance that further unsettled conditions in the market may not cause an additional decline. The decision against the "big three" tobacco companies will also affect Lorillard, but the "big three" are seeking a new trial in the case which alleges violation of the Sherman anti-trust act. It appears that Lorillard and the other companies which were relieved of the necessity of appearing in court are still liable. Nevertheless, we feel that the stock of this company is worthy of retention in diversified investment portfolios even though we do not look for any substantial expansion in earnings or pronounced improvement in prices. The stocks of tobacco companies in the past have not been outstanding market performers but have been held primarily for income, and as such we recommend retention at this time.

Alaska Juneau Gold Mining

I need your counsel on my 100 shares of Alaska Juneau Gold stock. Why is it selling lower than it has for many years? I hear that workmen are leaving, is it because the company has run out of ore? I have held the stock for some time and have a large loss—should I sell for income tax purposes or hold in hopes of recovery?—Mrs. K. T., Atlanta, Ga.

In the month of October it is believed that Alaska Juneau Gold Mining Co. earned about $113,500 as compared with $108,000 in the similar month of 1940. On a ten months basis $1,088,500 was earned as compared with $1,019,600 in the corresponding period of 1940. Apparently in view of the unsettled earnings the directors deferred a dividend distribution which is ordinarily declared in the latter part of September. A dividend of 12½ cents per share was declared in each of the three preceding quarters of the year which attests to the speculative character of the stock. It has been reported that about 1/3 of the workers have left for other occupations, many in the defense business, but such is often the custom until weather conditions for outside work become too severe. It is not expected that earnings for the full year 1941 will vary a great deal from the 62 cents per share reported for the year 1940 but dividend distributions appear to be of a fluctuating character over the near term, as a result of several fundamental factors. The gold mining industry is subjected to higher operating costs and increased taxes but with a fixed ceiling for the refined metals which it sells. This company is even more vulnerable because it operates with a very low grade of ore which has not been conducive of good profit margins since the year 1936 when $1.52 per share was earned. Since that time, earnings have shown a persistent decline and prices for the stock have reached the lowest levels since the year 1928 when it sold at $1.00 per share. It is our belief that the stock has speculative possibilities but in your case we see no reason why you should not avail yourself of the opportunity of taking a loss and adjusting your portfolio for tax purposes. For the reinvestment of funds, however, we would prefer a commitment in a more promising security.

National Supply

I have just received the nine months' report of National Supply Co. and note a substantial increase in current earnings. I own 100 shares of the common stock and am wondering what the chances are of receiving any dividends next year. Is there any chance that the accumulated arrears on the three issues of preferred stock may be paid off this year, or early next year? I have read recently that steel priorities may force a considerable curtailment of oil drilling operations. How will this affect National Supply? Do you feel that I am justified in continuing to hold the common stock or should I switch to some other issue offering greater promise? —D. S. H., El Paso, Texas.

In the first quarter of 1941, Na-

tional Supply Co. has carried ahead its earnings expansion which started several months ago. Taxes, however, have shown a greater increase in the first nine months of 1941, as compared with the corresponding period of 1940 than net earnings. They have increased 540% while earnings increased only 330% during this period. Taxes came up from $545,201 to $3,471,948, while consolidated net profits increased from $989,650 to $3,989,828. After depreciation, interest and provisions for taxes and dividend requirements on the various preferred stocks, is equivalent to $2.03 per share on the common stock compared with a loss of 57 cents per share for the corresponding period of 1940. The prospect of dividends on the common stock of this company is somewhat remote at this time in view of the accumulated unpaid dividends on the preferred issues. The accumulations on the preferreds after giving effect to recent declaration of 3.43¾ on 5½% and $3.75 on 6% preferreds amount to $5.50 on the 5½% series, $6.00 on the 6% series and about $6.00 per share on the $2 ten-year preference stock. Obviously, these dividends have to be taken care of before the common stocks can participate but in view of the tremendous upturn in earnings coupled with the potentialities resulting from a defense plant agreement as of October 29, 1949, covering machinery and equipment to be used in the manufacture of aircraft parts to the amount of $273,536 the company will be able to more fully participate in the general upturn accentuated by our defense efforts. Difficulties in obtaining materials such as steel, is a threat for any wholesale expansion by the oil industry but it is believed that moderate expansion of plant and facilities will be permitted, in fact desirable, in view of the increasing importance of petroleum products in modern warfare. Under normal conditions, approximately 80% of sales of this company, have been in pipe, drilling machinery and incidental equipment used in the oil and gas industries. Today, however, the manufacturing of shell-forgings, airplane parts, etc. bids fair to account for an increasing amount of company's capacity.

While we feel that the common stock of this company is worthy of retention, it must be considered as speculative. For those desiring a more immediate turn on funds invested, we would suggest the preferred issues with the thought that upon clearing up of accumulated unpaid dividends to then switch back to the common stock. On the other hand, if trading is not a prime factor, retention of the common for the longer term is advocated.

National Gypsum

Do you advise holding National Gypsum (250 shares bought in 1940 at 10¼) in spite of the prospective curtailment of non-defense building? Will increased building activity in defense areas take up the slack caused by the curtailment? Will it be possible to maintain a favorable profit margin on this business? Is expansion contemplated to help absorb the backlog of orders? Would the company benefit from wide acceptance and use of prefabricated houses? With earnings of 77 cents per share on common for the first three quarters of this year (as compared with 67 cents over comparable 1940 period) will the dividend be correspondingly increased, or will increased taxes, labor and other operating costs counteract the gain?—E. C. C., Rockland, Maine.

In the first nine months of 1941, National Gypsum Co. reported earnings of 75 cents per common share as compared with 68 cents per share for the corresponding period of 1940. Net sales showed a substantial increase while federal income and excess profits taxes increased from $558,000 to $1.465.500. Despite the fact that the company is working at capacity levels with output sold beyond ability to deliver, materials have been rationed so that salesmen can make but about 1/3 of their normal sales. Production costs are reported to have risen approximately 25%, cost of sales 10%, and as given in the above, the company has experienced a tremendous increase in taxes. Curtailment of non-defense spending and priorities placed upon new building, except in those districts where the pressure for new housing due to defense activity is imperative, the outlook is somewhat cloudy at this time. The company is endeavoring to look to the future by starting a program anticipating the end of the current conflict. Obviously, the date is uncertain but such a program coupled with the company's intention to compete in all lines of wool and sealing material aids the long term outlook for the stock. Prefabricated houses would be of benefit to earn-

ings but such in the present stage are only for emergencies. In view of the somewhat complicated outlook we do not expect any substantial increase in earnings or dividend distributions at least for the time being. Therefore, it is our belief that your stock is worthy of retention at this time though market appreciation may be limited as well as earnings expansion brought about by the uncertain outlook for companies in this field.

Howe Sound

Last year I paid 48½ for 100 shares of Howe Sound common and have a substantial paper loss. Would you advise averaging? I understand that the company is making progress in offsetting the loss of its European markets. How is this being accomplished and will it continue? Will it benefit materially from the large demand for copper, lead and zinc? What about subsidies, higher costs of labor and the impact of heavy taxes with prices fixed? I was disappointed that nine months earnings showed a decline from last year. Can you give me an estimate of total earnings on the common for the full year?—G. M., Albany, N. Y.

While earnings of Howe Sound Co. in the first nine months of 1941 showed a slight decline from the $2.96 per share in the comparable period of 1940 to $2.70, the favorable factor is that in the September quarter $1.24 per share was earned as compared with 92 cents per share for the corresponding period of last year. It is our belief that the company will be one of the main recipients of the program recently inaugurated by this country to purchase foreign lead. The net price received should approximate 3½ cents a pound as compared with 2.9 cents a pound in the year 1940. The volume of lead should be approximately double that of 1940, consequently, creating a larger profit for subject company. Benefits from the ever increasing demand for copper is favorable but the shortage of labor and increasing costs are a restricting influence for increased profits from this division. It has been estimated that full year earnings will be in excess of the $3.63 per share reported for the year 1940 and that dividends, which have been liberal, may be augmented by an extra dividend at the year end. The financial position of the company is strong and for those interested primarily in yield on funds invested, we see no reason why additional modest purchases should not be in order although we would caution against the possibility of distorting portfolio balance by placing too much of funds in one company or in one industry. Nevertheless, we feel that your holdings are worthy of full retention at this time.

The U. S. Challenges Hitler's "New World" Order

(*Continued from page* 190)

there. At present exports are moving at the annual rate of about $850,000,000, or about $100,000,000 more than last year and some $250,000,000 above the average of 1938-39. Big increases are shown this year in our exports to Cuba, Mexico and other countries bordering the Caribbean. However, in the case of Argentina they still run below last year's level.

Our exports to Latin America have been hindered to some extent by the lack of shipping space and by our priority regulations. The shortage of shipping facilities has affected in particular the imports into Latin American countries of coal and other power fuels, necessitating rationing (in Brazil). In Argentina, too, many factories (cement plants, etc.) as well as railroads, have had to curtail their operations. Shortages of imported consumers' durable goods are also reported, which is rather ironical, since people south of the Rio Grande seem to have more money to spend than at any time since 1937. Bolivia and Uruguay are reported to be in the midst of a boom. In Brazil, Chile, Argentina, Cuba, Peru, Mexico, and Venezuela, internal business turnover is apparently continuing to establish new highs. Building activity is especially strong in Mexico and Peru. Peru's new rayon and cotton mills are working two shifts a day. The financial condition of both governments and private enterprise has improved, so that the need for financing from the United States is less. The Bank of Brazil has paid off a two-year loan on schedule, while in Argentina the exchange situation has apparently improved so much that the Government made no use of a $60,000,000 credit offered by the United States.

To assure special treatment of Latin American needs, especially where new or essential plants are

concerned, a clearance section has been established in the office of the Administrator of Export Control, while the State Department is looking after the clearance of goods for Government projects. The State Department has made a survey to determine just what are the "essential" needs of Latin American industries.

As a result of the rapidly expanding imports, Latin American countries are expected to accumulate in 1941 a favorable balance of at least $200,000,000 in their trade with us in contrast with an unfavorable balance of $105,000,000 in 1940. This is not all, however. We have been also buying from Latin America newly-mined gold at the rate of about $90,000,000 a year, and newly-mined silver at the rate of $40,000,000 a year. Not all this credit of some $350,000,000 to $400,000,000, however, will be available to Latin Americans. Most of the payments for Venezuelan oil and Chilean copper are retained in the United States, and the Latin American countries have also to pay here debt service, insurance premiums and freight charges. Nevertheless, there will be probably at least $150,000,000 to $200,000,000 available to Latin Americans from this year's trading, in contrast with debits in the last few years.

Probably still more will be earned next year, especially if prices are higher. Nor are the Latin American credits limited to dollars. South America will have accumulated also a large surplus of pounds sterling in her trade with Great Britain. The British buying has been declining, however, partly because of the scarcity of foreign exchange and ships, and partly because our Lease-Lend Act makes British purchases in Latin America less necessary.

The question now remains what Latin America is likely to do with the large dollar surpluses which are being accumulated in her trade with us. What is she going to do with them if she is unable to spend them promptly for our goods? To quote Mr. D. A. del Rio of the Central Hanover Bank and Trust Company, the accumulation of dollar balances "may be the beginnings of a cushion of wealth of unprecedented proportion . . . which after the war should prove very beneficial to the future foreign trade of Latin American nations." In other words, the balances could be used to establish dollar and gold reserves to assure the stability of Latin American currencies. Liquidation of short-term commercial obligations and credits of the Export-Import Bank may be the next step. After that, if the balances continue to accumulate, perhaps long-term obligations could be liquidated either through repurchases in the open market or voluntary settlement with bondholders.

Already during the Second World War the debtor position of Latin American countries is experiencing a change in regard to both European and North American creditors. Such change should mitigate the transfer difficulties and reduce the fluctuations of foreign trade. Most important perhaps of all is the fact that Latin American native capital is assuming a broad and aggressive role in the economic development of these republics.

Outstanding Profit-Income Opportunities in Rail Bonds

(*Continued from page 201*)

activity in the New England territory served and present indications are that full interest requirements for the year will be covered by a wide margin. The earnings betterment has permitted a considerable strengthening of finances, with working capital at the best level in several years.

Gulf, Mobile & Ohio 5's, 2015

Something new in railroad history was the consolidation of a solvent road with a bankrupt one as represented by the present Gulf, Mobile & Ohio resulting from amalgamating the properties of Gulf, Mobile & Northern with those of the Mobile & Ohio for the mutual strengthening of both. In the first eight months of the current year, the road showed earnings after all charges including income bond interest earned over 2.15 times and coverage for the full year is estimated as high as 5 times for the income issue. These bonds were issued in the amount of $6,025,800 and dated July 1, 1940. Interest is payable if earned up to 5% annually on April 1 of each year, the amount of accumulation being limited to 15%, or to three years interest as in the case of the previously discussed Chicago Great Western issue. Traffic for the road in the month of September reached a new peak for the year with gross at $2,121,743 as compared with $1,562,379 a year before. Net operating income for the nine months stood at $2,878,610 and compared with $903,019 last year. The road enjoys a well diversified traffic volume and even allowing for the temporary nature of the present level of operations, most years should show interest on the income issue earned by fair margins.

DIVIDENDS

Erie Railroad 4½s, A, 2015 W.I.

With the exception to the Erie 4½s of 2015, all of the income issues covered in this discussion have been limited to those already issued and consequently in a position to yield a return to the holder if earnings are sufficient. While the Eries are still traded on a "when issued" basis, indications are that this will be the next major rail system to complete reorganization with work understood to be progressing rapidly on the printing of new issues, etc. New fixed charges will be reduced under the plan to around $7 million from the present $14 million and applying actual earnings to the new capitalization, income bond interest would have been covered in all but one of recent years. The bonds are cumulative only to the extent earned up to a maximum amount of 13½%. Since the effective date of the reorganization is Jan. 1, 1940, there will be a total of 9% due holders by the end of the current year. Applying this accrued interest to the present price for the bonds of around 55, it is evident that the indicated return after completion of the plan and issuance of the new securities is around 10%.

Labor . . . Public Issue No. 1

(Continued from page 182)

it differed entirely from the farm benefit legislation. To get the benefits, farmers must live up to prescribed standards as to soil conservation, acreage planted to designated crops, etc. There is no reason why similar reciprocal standards and obligations should not be prescribed legally for labor unions.

The anti-injunction law, in effect, rests on the assumption that labor unions can do no harm and are always in the right; and hence prevents legal bar to picketing, unless it is violent or otherwise in clear conflict with valid local ordinances or laws. Obviously, it is possible for non-violent picketing to enforce a strike called by racketeers for shakedown purposes. And as a matter of practice we know that strike violence, coercion and intimidation are widely practiced, without effective restraint on the part of local police forces.

One remedy worth considering is to provide mediation machinery, similar to the Railway Labor Act, and to provide further, at least for the duration of the defense emergency, that any union which refuses to accept and abide by the decision of the Federal mediation board shall automatically be deprived of its special rights and privileges under both the Wagner Act and the anti-injunction law.

What is required for the labor problem as a whole is a mature sense of responsibility and obligation on the part of national and local labor leaders—as exists in England. Also required is a wholehearted acceptance by industry of the collective bargaining principle. The relatively satisfactory labor relations in England came about partly out of sane and democratic legislation, partly out of usage and custom.

So we need some legislation, as outlined here; a more realistic, effective policy on the part of the Roosevelt Administration; and time for the pressure of public opinion to force organized labor to "grow up" into a responsibility more compatible with its greatly increased power.

Savings and Loan Associations

(Continued from page 211)

funds in 38 States. In New York, investment certificates of Federal savings and loans associations are legal for all types of trust investments up to $10,000, provided the association has total capital of at least $100,000; as to State associations, investment certificates of New York State associations only are legal, the other requirements being similar to those of Federal associations.

As a safeguard in event of emer-

gency, all Federal associations are entitled by law to require 30 days' notice before principal of investment certificates or passbooks may be withdrawn. Many associations are permitting withdrawal on demand, while other associations prefer to use the 30 day notice period, because they believe the public should realize that checking accounts are not being operated. In addition, the law requires associations which do not pay accounts at the termination of 30 days to number all demands for payment in the order of receipt, and to apply thereto one-third of all funds received by them from any and all sources. In such cases, associations are required to pay only $1,000, and must then renumber the account, paying $1,000 in regular order until the account is liquidated. It is understood that no association is presently numbering its withdrawals, and, as a practical matter, withdrawal can either be made on demand, or within 30 days thereafter. The procedure with respect to State chartered associations differs according to the laws of the several States.

Federal associations are required to be members of the Home Loan Bank System, consisting of 12 regional Home Loan Banks, a set-up which corresponds generally to that provided in the Federal Reserve Act for commercial banks. Federal associations are required to buy stock in the Federal Home Loan Bank of the appropriate district, and the Home Loan Bank provides rediscount privileges to associations generally similar to the rediscount privileges afforded member banks of the Federal Reserve System. The district Home Loan Bank will lend member associations up to 25 per cent of share accounts for the handling of current administrative business, and also will grant a further 25 per cent rediscount privilege in event of emergency. Thus, the lending and rediscount privileges of member associations of the Home Loan Banks provide a 50 per cent liquidity reserve. Since associations make mortgages on a monthly amortization plan, there is a continuous monthly flow of cash to the associations. Federal associations also are required by law to allocate at least 5 per cent of net income to reserves, but, as a practical matter, most associations are building up more substantial reserves.

The organization of the Federal Savings and Loan Insurance Corporation as an instrumentality of the Federal government provides a further safeguard to all investments in insured associations up to $5,000. The Insurance Corporation exercises wide authority to prevent default by an insured association, or to restore an insured association in default to normal operations by means of loans, contributions or purchase of assets. If such efforts fail, the Insurance Corporation makes available to each insured investor a new account of equal amount in an insured association not in default. In effect, this procedure is the same as if the investment were withdrawn in cash and reinvested in another insured association. If the investor prefers, 10 per cent of an insured investment may be withdrawn immediately in cash, the balance being paid 45 per cent in negotiable non-interest bearing debentures of the Insurance Corporation due one year from date of default, and 45 per cent in similar debentures due three years from date of default. To date, no insured investor has chosen to accept the cash and debenture method of settlement. The loss record of the Insurance Corporation to date has been phenomenally low, and, over a period of seven years, it is understood that only four associations have been liquidated at a loss of less than $1,000,000. Meanwhile, the charge of one-eighth of one per cent paid by insured associations on the amount of insurance coverage, plus income on its investments, are increasing the assets of the Insurance Corporation at a rate of about $6 million annually, a sum which approximately represents the difference between the statement of condition as of June 30, 1941, and that of June 30, 1940.

At the present time, insured associations are considered to be in a healthy condition. While curtail-

ment of building operations will somewhat reduce their volume of business, the real estate situation domestically will generally benefit. Also large residential construction is required in defense areas, and savings and loan associations may continue to have a substantial volume of business in the small home field, which ourrently has not been banned under priority regulations.

What Is the Future for Common Stocks?

(Continued from page 185)

to any further rise in taxes. Not subject to excess profits tax, it is accruing Federal taxes at the rate of 30 per cent. It is now earning approximately $2.06 per share annually. If the normal Federal tax were raised to 35 per cent, net for common—assuming no gain in earnings before taxes—would drop to $1.65, and should the normal tax reach 40 per cent, net would drop to $1.22 per share. I do not say such sharp increases in normal taxes are coming.

In the case of United Aircraft, normal taxes plus excess profits taxes in the first nine months of this year absorbed approximately 79 per cent of earnings before taxes, against about 50 per cent in the first nine months of 1940—but meanwhile volume had expanded by about 150 per cent, from $79,023,000 to $203,435,000, and *operating* income by some 170 per cent, from $18,425,000 to $49,990,000. For this reason, despite sharply higher taxes, nine months' net on the common was $4.05 or slightly larger than $3.93 earned in the first nine months of 1940.

In the third quarter, this company was earning income before taxes at a rate of about $100,000,000 a year. There are further sharp increases ahead in gross and operating income. It is not inconceivable that the latter may be as much as $150,000,000 for 1942 and even more when peak output of aircraft is reached. In that case, even if taxes absorbed as much as 90 per cent of income, the remainder would be quite close to this year's excellent earnings.

For another comparison, contrast United States Steel with Baldwin Locomotive. Under current circumstances, both may be classed as "war babies." But the former is vitually at capacity and its capacity is subject to but relatively small percentage increase over the next year. Therefore, operating income in 1942 will not be importantly higher. In fact, it could be reduced from 1941 levels by even a moderate increase in costs, unless steel prices were permitted to rise. Federal taxes this year will absorb some 50 per cent of the company's earnings. Should this proportion be increased to 65 per cent, with unchanged operating income, net profit would be reduced about 30 per cent or to $8 a share, against $12 estimated for 1941. Should taxes take 75 per cent of earnings, net profit would be cut to $6 a share—still better than for all recent years excepting 1937, 1940 and 1941.

In the case of Baldwin Locomotive, earnings before taxes increased over 300 per cent in 1940 and over 200 per cent this year. There is still a considerable potential for additional expansion of volume. Federal taxes probably will absorb somewhere close to 55 per cent of earnings this year. Suppose 1942 brings a gain of 50 per cent in operating income and an effective tax rate as high as 75 per cent. Net profit would still be substantially larger than for 1941. It is not impossible that in this instance operating income over the next year or two may increase by 100 per cent. If so, retention of no more than one-quarter of earning power as net profit would better 1941 net profit by more than 50 per cent.

Finally, consider the situation of two outstanding consumer goods enterprises: J. C. Penney and General Foods. Penney's Federal tax charge this year may be roughly estimated at about 35 per cent of earning power. This proportion could be increased to 45 per cent, or by nearly 30 per cent, without impairing present net profit level—provided sales next year increase by 15 per cent and provided operating margin holds at no lower than 7 per cent of sales. It was 7.2 per cent in the first half of this year and 7.1 per cent for the full year 1940.

In the case of General Foods, Federal taxes this year will take probably some 48 per cent of earnings. This could increase next year to 55 per cent, without lowering present profit, provided sales gain 15 per cent and present operating cost ratios are maintained. On the basis of present tax law, the company is moderately more vulnerable than Penney.

In summary: I am convinced that fears regarding the war time corporate earnings outlook have been overdone; and that our private enterprise system, despite continuing modification, is not headed for the ash can.

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The Aircrafts

(Continued from page 199)

an exemption of about $9.75 from excess profits taxes. Fairchild Aviation will probably earn about $2.50 a share as compared with $1.92 a share last year and an exemption of about $0.90 a share. Grumman Aircraft is expected to earn close to $3 a share and of this amount, with exemption of $1.39 a share. Lockheed should better than double last year's earnings of $3.17 a share with exemptions from excess profits about $2.07. Martin will probably earn around $6 a share, with exemptions of better than $3 per share. North American Aviation, mostly because work was interrupted by labor troubles, will only report about $2.15 a share this year as compared with $2.06 in 1940. North American's estimated excess profits tax exemption amounts to approximately $1.58 a share. United Aircraft will probably do but little better than a year ago when $5.95 a share was reported. Exemption amounts to about $3 a share.

Dividends—due to better earnings and the fact that working capital is being provided by the Government in many cases—will probably be moderately higher this year than a year ago. Consolidated Aircraft has already split its stock 2 for 1 by the payment of a 100 per cent stock dividend this year and it is probable that dividends will be in the vicinity of $3 a share on the new stock as compared with $1 a share a year ago on the same capital basis. Curtiss-Wright has already doubled last year's distribution of $0.50 a share and Fairchild Aviation may possibly do the same thing. Glenn L. Martin's 1940 dividend of $2 a share may be expected to be increased 25 per cent. Lockheed will probably pay about 60 per cent more than the $1.50 a share distributed a year ago but Douglas ($5), Sperry ($2) and United Aircraft ($3.50) will likely remain unchanged from a year ago figures. There are now very few of the more important aviation manufacturers who are not paying dividends. Of these few, the best part of them will probably start distributions next year if not toward the close of the current period. With the outlook for earnings reasonably good, there is every possibility that dividend rates now being paid will be maintained, and in a few instances increased moderately. Unless taxes become so burdensome that profits will be completely absorbed, dividend paying companies should continue their distributions throughout the emergency period.

So far we have been discussing the prospects of manufacturers engaged directly and completely in the making of materials used in aircraft. There are, however, a number of companies whose interests are more or less divided between the aviation industry and other activities and, in at least one instance, the manufacture of equipment that is essential to aviation but has no bearing upon actual flight. As an instance of the latter classification let us consider the case of Irvin Air Chute Co., the maker of parachutes. These articles have no direct bearing upon actual flight but, except in the case of commerical passenger flying, every aviator is equipped with at least one of these safety devices. And Irvin Air Chute is the country's principal maker of parachutes.

Irvin Air Chute continues to operate at full capacity. Despite this fact, unfilled orders in midsummer amounted to more than $3,500,000 or nearly a year's deliveries even at the present augmented rate of production. Silk, the major fabric from which parachutes are made, poses no problem to Irvin Air Chute. As yet, this material defies substitution for its particular purpose, so the Government has assured the company of a continued adequate supply even should most other users of silk have none. Taxes, on the other hand, are just as much of a burden as they are to the rest of

the country. And because of the fact that Irvin has large factories in Canada and elsewhere outside of this country, foreign taxes also have a distinct bearing upon earnings. Nevertheless, the moderate uptrend in earnings available for the common shareholder will be continued and estimates of 1941 earnings place the figure in the vicinity of $2.50 a share as compared with about $2.08 a share for 1940. No change in the prevailing annual dividend rate of $1 a share is anticipated although there is a strong probability that the regular rate will be augmented with extra disbursements from time to time.

Sperry Corp. is probably an outstanding example of an organization whose interests are divided between the aircraft industry and other fields although at the same time the company is concerned wholly with defense business. Sperry is the designer of the now famed Sperry bomb-sight and as such is actively engaged in its manufacture. But it is also the owner of the no less famous Sperry Gyroscope patents which are applied to the making of stabilizers and compasses for all types of transportation on land, on the sea and in the air. Sperry is a relatively small organization but its products, due to their intricate nature, are high priced and carry better than average profit margins. In the latter part of August, Sperry's unfinished orders totaled $235,000,000 as compared with probable deliveries of $100,000,000 this year. The Government is financing a production expansion program for Sperry but the new facilities are not expected to be in full production until some time in mid-1942.

In recent years, Sperry has been a consistent earner with the trend moderately higher. First half 1941 earnings of $1.73 a share as compared with $1.52 a share for the same period of a year ago, thus indicating that the trend continues in spite of heavier taxes and costs. In all probability, Sperry's 1941 earnings will be somewhere between $4.50 and $5 a share as compared with $3.90 a share in 1940 and $2.49 a share in 1939. Dividends have been paid at the rate of $2 a share and it is probable that this rate will be maintained for the present, at least, mainly because of the need of increased working capital to finance facility expansion other than that which the Government is sponsoring.

Bendix Aviation also splits its interests between the aviation industry and others, although not all of the other business is for defense work. Despite the name, Bendix Aviation has mostly catered to the automobile industry. By concentration, the importance of the aviation branch of the business increased slowly in pre-war years although it never accounted for more than 40 per cent of the total during that time. Now, the company's products are about 50-50 for the aviation industry and the others with the aircraft end of the business continuing to expand. The company now supplies—in addition to aircraft equipment—naval materials, munitions and other defense items. Expanded facilities will make possible deliveries amounting to approximately $125,000,000 for this year, and of that sum, approximately 66 per cent will be defense materials of all kinds. As of August 30, the backlog of unfilled orders from all sources totaled better than $300,000,000 and has since been augmented by substantial additions from both the Army and the Navy.

Bendix Aviation's fiscal year ends on September 30 but, up to the present writing, the earnings report has not been released. Indications are, however, that Bendix earned approximately $6 a share of common stock after allowances for excess profits taxes, as compared with $3.75 a share for the fiscal period ended on the same date a year ago. A recently contracted for plant to be financed with the help of the Government will further increase output next year and it is expected that constantly rising billings will sustain the uptrend of earnings despite the increasing effect of excess profits taxes and other imposts.

The drastic expansion of aviation manufacturing facilities naturally turns thoughts to the probabilities of the future. The last war demonstrated that many industries, which had expanded their plants to meet war orders, were faced with the insurmountable problem of their effective employment after the war was over. But it should also be remembered that during subsequent years, all such facilities that had not been hopelessly outmoded were again active and even further additions were necessary. It is likely that the close of the present war will find this country with a heavy overproduction capacity of aircraft and equipment, although now it will not be the manufacturers that will be called upon to carry the excess facilities but rather the Government, for reasons previously outlined in this article. And, moreover, there are many indications that at least a part of the recently added facilities will find active and continued employment.

Lessons of this war teach that a large air force is imperative to the safety of any nation and, accordingly, it is most probable that our own air force will be maintained at high levels. Whether this will mean an effective fleet of 50,000 or 100,000 ships of all types is impossible to state, although the more the better has been the advice of competent authorities. The actual life of a military ship in peace times is relatively short. Even a five-year-old machine is almost hopelessly out of date in competition with a new model. On that basis it would be likely that a minimum replacement of 20 per cent per annum could be expected or, on a 50,000-ship fleet, 10,000 new planes yearly. Then, too, airplane equipment is much more short lived than the ship itself, with the result that there should be considerable renewal business as well for the motor and accessory makers.

The strong public interest in aircraft of all kinds will result in sharp gains in air travel and private flying. Production methods learned during these times may well have the effect of popularizing private airplanes somewhat in the manner in which the automobile was adopted generally after the last war. Commercial flying will unquestionably continue its expansion program interrupted by the emergency and since by the end of the war almost all of the commercial equipment will have been requisitioned or rendered obsolete, the manufacturers will be called upon to provide an entirely new commercial fleet of far greater than previous size. After the initial equipment of the revived commercial lines, there will be considerable business in replacement and maintenance as well.

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